

NEWS SUMMARY

GENERAL

Another kidnap shakes Spain

Two of Spain's top military leaders sent telegrams to King Juan Carlos demanding that stern measures be taken against the kidnapping yesterday of the president of the Supreme Court of Military Justice in the centre of Madrid. A 20-year-old girl student was killed during fierce clashes between police and demonstrators.

Last night a law office used by the Communist-led Workers' Commission was sprayed by gunfire and one person was killed and several injured.

Police sources said there were reasons to think the kidnapping of Lieutenant-General Emilio Villacampa, noted for his loyalty to the late General Franco, with that of Sr Antonio Ordo, president of the Council of State, who was taken from his office on December 11 and is still being held.

An eye-witness to the kidnapping said one of the assailants was a member of "Greta", the extremist faction which claims to be holding Sr Ordo. The girl was the second demonstrator to have been killed within two days. *Back Page*

BUSINESS

Equities 6.9 down; sterling gains

● **EQUITY** leaders were marked down at the opening after Press comment on the build-up of speculative positions and the relatively low level of institutional liquidity. FT 30-Share Index closed 6.9 down at 377.8.

● **STERLING** closed at \$1.7183, a gain of 20 points from Friday. Its trade-weighted depreciation narrowed to 42.5 (42.9) per cent, dollar's narrowed to 1.15 (1.20) per cent.

● **GILTS** opened lower: early falls to 1 in longs were reduced to 1; mediums were unchanged at the close; shorts came in for renewed demand and earlier losses to 1 were turned into small net gains. Government Securities Index gave up 0.12 to 64.42.

● **GOLD** gained \$1 to \$132.62.

● **WALL STREET** closed at 963.60, up 1.17.

● **TIN** hit record highs: At the close standard cash tin was up 5.000 to 5,500.

Trial judge 'on death list'

Mr. Justice Cantley, the Balcombe Street siege trial judge, was told at the Old Bailey that his name was among those of 35 judges appearing on an IRA death list. A four-point active service unit of the Provisional IRA was charged with a series of murders, bombings and shootings in what was described by the Crown as an "act of violence". The accused refused to plead to the 25 charges.

Rhine Army new deal planned

Britain and West Germany are in press ahead with negotiations for a new official agreement to help compensate the U.S. for the foreign exchange cost of the Rhine Army. The new agreement will almost certainly be the last of its kind. *Back Page*

Second life term

Mr. John George Robinson, 47, of Dickinson Street, Wakefield, was jailed for life at Leeds Crown Court for the murder of a 12-year-old Huddersfield woman. The judge recommended that he should not be released before the end of his days. In 1969, Mr. Robinson was given a life sentence for the murder of a nine-year-old boy.

Pensions writ

Three pensioners have issued a High Court writ against Mr. David Ennals, Social Services Secretary, alleging that the Government failed to increase pensions to keep pace with inflation by deliberately extending the period from March to November, 1975.

Colleges to shut

Mrs. Shirley Williams, Education Secretary, told the Commons that between 25 and 30 teacher training colleges would have to close because of the fall in the birthrate. *Page 10*

Theatre post

Mr. Stuart Burge takes over as artistic director of the Royal Court Theatre on February 1. *Page 3*

Briefly

Cradley Heath, W. Midlands: Six women taken to hospital after a poison scare at the WSR vacuum-cleaner assembly plant may have been victims of mass hysteria.

Mister Know All: at 7-4, was Dominic Wigan's third successive winning nap, extending his winter profit on a daily stake to £16,771. *Reading, Page 2*

Sir Andrew Humphrey, Chief of the Defence Staff and Marshall of the Royal Air Force, has died, aged 56. *Obituary, Page 5*

Shipbuilding: more to quit

● **GOVERNMENT'S** trouble-prone shipbuilding policy suffered a new setback when the three remaining full-time members of the organising committee of British Shipbuilders confirmed that they would not stay on. *Back Page*

● **MORE** changes in the Board and management structure of the National Freight Corporation were being planned—exactly a year after a major internal shake-up. *Page 8*

● **WESTERN AIRLINES**, a major U.S. domestic operator, may buy the European A300 Airbus. *Page 6*

● **JAPAN'S** trade surplus almost doubled last year, to \$9.92bn, Finance Ministry said. *Page 6*

COMPANIES

● **ALEXANDERS** Discount Company profit in 1976 dropped from £0.95m to £0.28m; profit carried forward will be £0.61m. *Page 23*

● **VOLVO** pre-tax profit for 1976 was £38m. *Page 25*

CHIEF PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated.)

RUBBER:

| | | |
|---------------------|---------|---|
| Treasury Spc 1980 | 322 1/2 | + |
| A.C.E. Machinery | 10 | + |
| Bambergers | 52 | + |
| Clark (Rd) | 25 | + |
| Haggas (J) | 322 1/2 | + |
| Racal (W) | 285 1/2 | + |
| Ransom (W) | 105 | + |
| Ward Engineering | 28 | + |
| White Child & Beney | 64 1/2 | + |
| Assam Doonars | 155 | + |
| B.H. South | 24 | + |
| Hampersley | 245 | + |
| Musto Express | 32 | + |

FALLS:

| | | |
|-------------------|-----|-----|
| Assoc. Newspapers | 130 | - |
| Barclays Bank | 267 | -11 |
| Costam (R) | 140 | -7 |
| Distillers | 127 | -4 |

'Little virtue' in re-convening Geneva talks—Richard

Smith rejects U.K. plan for Rhodesia settlement

BY BRIDGET BLOOM, Salisbury, January 24

The five-month-old Anglo-American initiative to achieve a peaceful settlement in Rhodesia appeared to have collapsed to-night following the refusal of Mr. Ian Smith, the Rhodesian Prime Minister, to consider new British proposals for an interim Government in Rhodesia as a basis for the resumption of negotiations at Geneva.

Mr. Smith rejected the proposals this morning at a 45-minute meeting with Mr. Ivor Richard, the British chairman of the Geneva conference. Mr. Smith said that the British proposals were "not broken off negotiations" and that he was still prepared to negotiate within the basic framework of the Kissinger plan with flexibility. But observers here believe that his rejection of the British proposals signals the end of the settlement initiative.

Mr. Richard said the British proposals—which had been accepted as a basis for discussion by all the other parties to the Geneva talks as well as by the U.S. and the European Governments, and South Africa—could have led to a peaceful settlement which would have assured the future of both black and white Rhodesians.

But Mr. Smith's condemnation of them was categorical, appearing to leave no room for manoeuvre.

Although Mr. Richard, in a Press conference this morning, emphasised that "all the fine print" was negotiable, and that the proposals were in no sense a "take it or leave it package," this is the light in which Mr. Smith chose to interpret them.

The Rhodesian Premier was particularly scathing about the proposed role of the British resident commissioner who, under the plan, would have chaired and had a casting vote in a majority black council of ministers and a national security council. Although the resident commissioner would have a veto on "certain specified matters," mainly U.S. and South Africa.

He repeated that the only proposals he was prepared to accept were those agreed with Dr. Henry Kissinger, the former U.S. Secretary of State, last September.

Mr. Smith said that there "can be absolutely no shadow of doubt" that if the British proposals were implemented they would lead to the rule of a "Marxist indoctrinated minority."

In a television interview, Mr. Smith said that if the British plan was followed by talks with all the other parties, including the whites trying to leave Rhodesia, there would be "chaos." Only U.S. and South Africa.

Before he left for Johannesburg, Mr. Richard said that he was "a little virtuous" in recommending the Geneva conference. He is expected to report to the Foreign Secretary, Mr. Anthony Crosland, within the next few days. This is likely to be followed by talks with all the other parties, including the whites trying to leave Rhodesia, there would be "chaos." Only U.S. and South Africa.

Editorial Comment Page 20
Reaction and pictures Page 6

Bullock: CBI may quit industrial strategy

BY JOHN ELLIOTT, MANAGEMENT EDITOR

A STRONG hint that the CBI He did, however, make it clear that the CBI was not totally opposed to worker-directors in principle.

Mr. Methven would not confirm during the programme that his remarks meant that the CBI would definitely pull out from the industrial strategy talks which are taking place under the umbrella of the National Economic Development Council.

He based his refusal on a belief that the Government would allow full consultation on the Bullock proposals.

However, it seems likely that the CBI would threaten to pull out if the Government insisted on going ahead with its pledge to the TUC to legislate on the proposals.

An alternative view of the link between the industrial strategy and the Bullock proposals came, however, during the programme. Mr. David Lea, a TUC member of the Bullock committee.

He said that the idea of worker-directors was justified because it was the equivalent in the Boardroom of the responsibility which union "allowance" being expected to shoulder under the industrial strategy.

In the debate now building up between Government Ministers on the subject, the position of Mr. Eric Varley, Industry Secretary, is crucial because of the pressure he is coming under from industrialists to oppose the Bullock report in the Cabinet.

He also has a primary role to play in the implementation of the Bullock-style proposals to the nationalised industries.

Despite some reservations in the Department of Industry, the Government in general feels committed to legislating on worker-directors. Yesterday, one of Mr. Varley's junior Ministers, Mr. Robert Crier, said that the Government should be more constructive in their attitude towards the work of the Bullock committee.

In the Commons he said there was a movement throughout Europe to give working men and women a much greater part in decisions that greatly affected their lives.

So far he had been very disappointed by the CBI's "rigid position" on such proposals. The Bullock report would be an important step forward in the development of industrial democracy in Britain.

Parliament Page 10

Guinness in fight with NEB

BY TERRY WILKINSON, CITY STAFF

THE NATIONAL Enterprise Board's plan to take a 24.4 per cent stake in White, Child and Beney, the Manchester materials handling and plastics company, has sparked off a hotly-contested £5m. bid from Arthur Guinness Son and Co., the company's main shareholder.

This is Guinness's second attempt to gain control of WCB. After unsuccessful bids through its subsidiary GPC Holdings, bidding the equivalent of 41p a share in 1974, compared with the present 65p in cash or 63p in Guinness shares, the brewers ended up with a large stake in WCB, since increased to 44.35 per cent.

Although hampered by City takeover rules, which permit it to buy only 2 per cent of WCB's shares a year or make an outright bid, Guinness has always made it clear that it wanted control of the company.

On December 23, WCB announced that the NEB had agreed to subscribe £11m. in cash for new shares of 24.4 per cent. This move would have had the effect of diluting Guinness's stake to about 35 per cent.

Mr. Peter Guinness, chairman of GPC, was concerned yesterday that the NEB had "allowed themselves to be used to dilute GPC's effectiveness." His company had no alternative than to oppose the NEB proposals and make a bid for control of WCB.

Mr. Guinness said that a placing of his company's 44.35 per cent stake, which at one stage had been offered to the NEB but turned down by Lord Ryder, the Chairman, had been ruled out because of the small institutional interest in WCB shares.

It was clear too, he added, after meetings last week with the "sincerely independent" Board of

Government raises \$1.5bn. Euroloan

BY TONY HAWKINS AND PETER RIDDELL

THE GOVERNMENT has arranged to borrow \$1.5bn. for seven years from the Euro-market in order to strengthen the reserves on "a secure medium-term basis."

The move, foreboded in Saturday's Financial Times, was announced yesterday by Mr. Denis Healey, the Chancellor of the Exchequer, in a Commons written answer.

The Bank of England negotiated the loan with a syndicate led by a group of major U.K., U.S. and West German banks.

The confirmation of the loan provided a further stimulus to sterling which rose 20 points on the day to \$1.7185. Dealers believe that the authorities again sold sterling and took in foreign exchange for the reserves to prevent too sharp a rise in the value of the pound with the policy agreed at the Basle central bankers' meeting on the sterling balance a fortnight ago of trying to avoid a build-up in either the official or private holdings.

Explaining the new move, Mr. Healey said that the reserves have "for long been very low in relation both to the scale of our external transactions and by international standards." At the end of December, the reserves hardly covered one month's imports.

The \$1.5bn. credit has been arranged and wholly underwritten by a group of 13 German, North American and British banks. The largest contribution comes from the four German banks—Commerzbank, Deutsche Bank, Dresdner and Westdeutsche Landesbank—followed by the four North American institutions—Bankers Trust, Chemical Bank, Morgan Guaranty Trust and the Royal Bank of Canada. The five British banks involved are Barclays, Lloyds, Midland, Natwest and Williams and Glyn's.

Significantly, the terms of the loan are much more favourable than those Britain was able to get in this market as recently as last October. The 7-year credit has an average life of 6 years and carries interest at 1 per cent above the London Interbank offered rate for six-months Eurodollar deposits (Libor) for the first two years and 1 per cent thereafter.

The funds from the loan will be quickly added to Britain's reserves with one tranche of \$500m. being drawn in the near future, which is understood to mean within 30 days and the balance of \$500m. being drawn down after an interval of six months.

As a result of the raising of the new loan and the first drawing from the IMF, the Government has now decided that no drawings should at present be made on the \$500m. short-term swaps from the U.S.

Projected

Mr. Healey yesterday stressed again the U.K. intention not to meet "our domestic needs on the basis of any build-up of potentially volatile external holdings of sterling."

The loan, in conjunction with the International Monetary Fund credit, should both cover the projected current account deficit and allow an increase in the official reserves, without relying on a rise in the sterling balances.

In the last month, very large amounts of foreign money have moved into the U.K., partly into gilt-edged stocks. The authorities are, however, treating this addition to the reserves as a potentially volatile element which is not being used for current account financing.

The arrangement of the credit opens the way for more direct action to be taken to discourage private inflows, as has occurred in Germany.

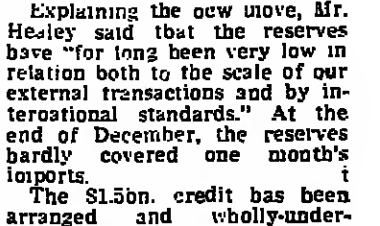
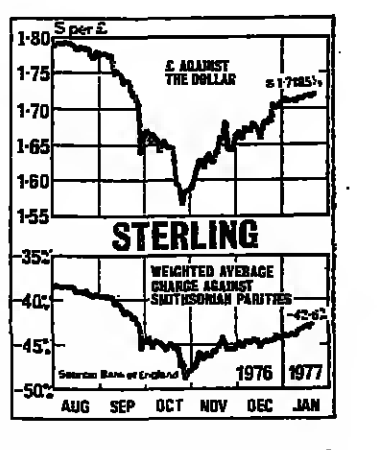
The stated policy on the official balances is not only to prevent a rise but also to encourage a further rundown. After the detailed scheme has been worked out at the next central bankers' meeting in Basle, there are expected to be talks with the official (and major private) holders on bilateral agreements on this aim. These might, of course, have to be supplemented by more direct action.

The raising of the new loan is likely to make any further significant borrowing by nationalised industries and local authorities under the Treasury exchange cover scheme unnecessary for the foreseeable future.

Rejection

The Rhodesian Government's rejection of the British proposals leave Mr. Crosland with very little room in which to manoeuvre and the chances of retrieving the situation now depend to a considerable extent on the new Carter administration in Washington and Mr. John Vorster, the South African Prime Minister.

Asked on BBC television last night if he would now consider going to Africa himself, Mr. Crosland said there were no plans for this, although he would be prepared to go there instantly if he felt he could "pick up some pieces."



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| COMPANIES | 1976 | 1975 |
|-----------------------|------|------|
| Alexanders Discount | 266 | 266 |
| Great Portland Estate | 218 | 218 |
| GN | 234 | 234 |
| Harrison & Crossfield | 357 | 357 |
| Hickson & Welch | 355 | 355 |
| Int. Computers | 168 | 168 |
| Lloyds Bank | 217 | 217 |
| NatWest | 170 | 170 |
| Ransomes & Sims | 100 | 100 |
| Spear & Jackson | 117 | 117 |
| Taylor Woodrow | 280 | 280 |
| Thomson Org. | 368 | 368 |
| Tubal Int. | 324 | 324 |
| Unilever | 434 | 434 |
| Vickers | 154 | 154 |
| LASMO/SCOT 'Ops | 285 | 285 |
| Shell Transport | 476 | 476 |
| Charter Const. | 132 | 132 |
| Cons. Murchison | 453 | 453 |
| Dunbar Deep | 250 | 250 |
| Rand Selection | 380 | 380 |

V & A current exhibitions

by WILLIAM PACKER



A drawing for 'Snow White and the Seven Dwarfs', showing pre-production versions of the characters

The crisis at the V and A, visited upon it by the Government's late efforts at economy, is perhaps too contentious an issue to deal with in a review, and well known in any case to require a further lengthy airing. And in the meantime, whatever may be the fruit of Dr. Strong's carefully provocative decision to suspend the work of the excellent circulation department, in terms of provincial cultural deprivation (a real loss indeed, though the classic Londoner must exercise his imagination somewhat to feel it), the main activities of the museum go on in much the same way as ever, serving and enlightening the public, helping the scholar, caring for and enhancing the great collection that it holds on our behalf.

At South Kensington we have one of the great treasure houses of the world, and should never need a special reason for going inside. Too often, however, we wait for the major show, the great loan exhibition, to tempt us in, seeing little else. But now that there is less money available to secure such treats, we must expect the museum drawing upon its apparently endless resources to come back into its own. We must learn to love it, as it deserves to be loved, for itself, where, whatever its faults, always there is something to discover, or rediscover, or simply take in yet again.

All collections grow by degrees, dependent upon the chances of availability, no matter how active the collector in tracking down his material. At our great museums, the process is continuous, the occasional sun-burst of publicity illuminating the spectacular or controversial purchase, but for the most part, quiet and unmarked, which makes the regular modest displays of recent acquisitions all the more fascinating and intriguing, lucky-dips compounded of bargains and bequests and crucial stop-gaps, and all revealing the considered priorities, and the tastes, of the custodians. Treasures of the Print Room Acquisitions: 1973-1976, which fills rooms 70 to 73.

At the V and A until April 17, is just such a show. It covers almost the full range of the graphic arts, embracing miniature, water-colours, drawing, print-making, illustration and cartoon and design, both decorative and three-dimensional. The paintings take us from the 18th and 19th centuries, with miniatures from the Herbarium, through the 18th, with Thomas Jones's view of Sorrento, and the 19th by way of Owen Jones and his extraordinary interior of an Oxford Street emporium, and so into the twentieth.

One of the most interesting critical developments of recent years has been the general reappraisal and consequent rehabilitation of English painting of our own century, which is reflected here by the showing of a group of small abstract works dating from the 1930's, by such artists as Winifred Nicholson, John Piper and Cecil Stephenson, alongside examples of Russian Constructivism, a Lisitzky "Proun" lithograph and an earlier Exter gouache. The influence is natural and obvious, but such juxtaposition would have seemed impertinent only a short time ago.

There are many other notable things of course: 17th century wall-paper, drawing for furniture by Conrart, Penguin book covers, a set of Art Nouveau bath furniture by Nelson and Edith Dawson; dress designs by Mary Quant and John Bates; textiles by Graham Sutherland and Henry Moore; an early Matisse wood-block. Most immediately accessible and engaging, however, is the small display of caricatures, cartoons and illustrations by such artists as Doyle and Burn-Jones, Partridge, Pougasse, and such contemporary entertainers as Osbert Lancaster, Thelwell and Mark Boxer. Taken altogether, it is an absorbing exhibition.

Coincidentally there are two other shows at the Museum that deal with the particular field of the cartoon and the humorous illustration. In Room 38A, just outside the refurbished cafeteria, until February 13, is a small travelling exhibition culled from the Walt Disney Archive

in California. Hardly comprehensive, indeed little more than an aperitif, and including frustratingly few original drawings, it marks, nevertheless, a significant shift in our collective attitude towards the work of that remarkable innovator.

There is still a great deal about The World of Walt Disney that is hard to take; the overwhelming sentimentality, the speciality of so much of the later work, the coy anthropomorphism, and the violence done to children's literature, to Lewis Carroll, to Kipling and Milne—all excusable, even enjoyable, as kitsch indulgence, but only if we care to parade our sophistication.

But then, and here the modern preoccupation with process and technique helps us to distinguish between our responses, we cannot but acknowledge the vitality that also informs the work; and, looking more closely, we must also applaud the astonishing inventiveness, the unalloyed enjoyment and the clarity of drawing for its own sake, that characterise Disney himself, and the artists he brought together to work for him, Iwerks and Gillett, Flohri, Spencer, Lukey, Hurter and so many more. They did it, and they did it well, and at great speed, facing unthought-of

technical problems and ever-growing commercial pressures; and they were all so good. Now their individual reputations as artists in their own right must begin to emerge from beneath the suffocating blanket thrown over them by the industry they served.

The other show, in room 132 until March 27, is a substantial review of the work of that herald of the music-loving middle classes the late Gerard Hoffnung. He was certainly a gifted humorist and a talented illustrator of his own ideas—the gallery is full of good jokes; but he was also idiosyncratic, rather than original artist, his drawing sitting comfortably in that groove of gentle, affectionate, eccentric surrealism that even then, in the '50s, had been well worn down by better artists, such as Seuri and Bunnett.

They too had specialised to some extent, but Hoffnung chose to limit himself almost entirely to the world of music and musicians. His reputation rests absolutely upon that choice; he achieved celebrity through it, and never really rested himself outside it. Had he lived, he might have done so, for a set of gouache illustrations suggest that children's books would have given him a suitable field to which to stretch his gentle talent.

Four new musical essays in nature study by him were introduced at last night's concert by the BBC Singers under John Pople. The four are evocations of places in Lancashire, each in a different season, and the cycle of the title comes back in homage to Goethe, whose biological writings Hoffnung admits as an influence. Tippett should perhaps be cited as another, since he is the work's leading influence, and would be leading to suggest that there is some similarity in style between the two composers; nor, indeed, does Hoffnung use anything to earlier English pastoral school. The closest parallel is rather:

Lindsay Kemp's Flowers, isn't much changed from its former look at the Regent. There is more room on the stage of the Round House, though the company doesn't take as much advantage of it as it might. There are some lighting effects not possible behind a proscenium. Rather less male flesh is displayed bare, but for no reason results from their slowness. He allows himself a sledge of dialogue ("Bring me a pot of your finest China tea, my man") which must have special significance for him, for he has stuck firmly to it ever since I first saw him in Edinburgh some ten years ago, though it triggers no special effect.

Mr. Kemp has his fans, however, always ready to applaud quite ordinary routines as if they were something unique. I suppose they are, and I am young to remember that dissimilar work from the post-war drag companies like Soldiers in Strips who might possibly have done the three cabaret dancers their wet umbrellas, even if they

did turn into ogres a moment later and massacre a harmless abbe—but on the whole I find the work common and empty. Mr. Kemp, whom I know to be a good actor and who may be a good dancer as well for all I know, trails through his scenes so languidly that one longs for the inevitable end before he is halfway through for no reason results from their slowness. He allows himself a sledge of dialogue ("Bring me a pot of your finest China tea, my man") which must have special significance for him, for he has stuck firmly to it ever since I first saw him in Edinburgh some ten years ago, though it triggers no special effect.

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ANTONY THORNTON
ly £1,200

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BY JOHN D...
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BY JOHN D...
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Brendel

by DOMINIC GILL

Admirers of Brendel—or I perfect (and sincere, for it is could say rather than one can fall honest), a spiritual buoyancy, a sublime flowering which the playing of Solomon achieved, which Serkin still achieves.

To press comparisons too hard on the other hand, and to conjure with too many names in the Beethoven pantheon, is to blame Brendel for failing to be another entirely, which is no part of my intention. He is unequivocally himself, and that, at its finest, is deeply impressive. Last night, at the fourth recital of his complete Beethoven sonata cycle, which continues at the Elizabeth Hall until the end of next month, he gave two very beautiful performances indeed—of the great, early revolutionary D major sonata, op. 10 no. 3, and that wonderful flower of the middle period, the Waldstein.

In the slow movement—the large, a memento—the D major sonata especially he was at his most eloquent, rounding the music with marvellous simplicity and clarity. In the finale too, done with unexpected (here nothing was predictable) explosive passion, tempered with a nice edge of wry humour. The music was marvellous in its simplicity and clarity. In the finale too, done with unexpected (here nothing was predictable) explosive passion, tempered with a nice edge of wry humour. The music was marvellous in its simplicity and clarity. In the finale too, done with unexpected (here nothing was predictable) explosive passion, tempered with a nice edge of wry humour.

Swan Lake

by CLEMENT CRISP

For Vergie Derman and Wayne Siegfried, the radiant assurance of her dancing was matched by Mr. Eagling at every moment. By its very choice of works Brendel's fourth recital was a scaled one of the later, greater sonata heights. But his forthright treatment of the little E major, op. 14 No. 1—both the form and the greatest force and beauty of the work—was compelling on its own terms.

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Beaux Arts Trio

by DOMINIC GILL

The first work of the recital had been the Shostakovich minor Piano Trio, Op. 67. One might have expected the same tactful qualities about the ensemble to diminish the black humour of the music. Yet, from the frozen lyricism of the opening, rendered with extreme delicacy, the effect was one of accumulating tension contained until the final "dance of death". Here the players, notably violinist Isidore Cohen, permitted themselves a vehemence of statement that made the work all the more moving. Death seldom appeared a wider or darker obsession of Shostakovich's than in this trio, or in this performance.

New appointment at the Royal Court

by DOMINIC GILL

The council of the English Age Company announce the appointment of Stuart Burge as Music Director of the Royal Court Theatre, with effect from January 1 in a statement issued a fortnight ago.

They express their gratitude to National Theatre and to the Hall for agreeing to re-engage him from his proposed engagement to them as "Artistic Director" of the National Theatre, a happy to accept this offer, cause he feels the Royal Court as one of the most important theatres in the country, and he

A BBC orchestra to be disbanded

by DOMINIC GILL

The Academy of the BBC, formerly called the BBC Training Orchestra, will be disbanded by September. The orchestra, based in Bristol, was formed for the training of young players, and the BBC has decided that it is too much for this responsibility to be borne out of licence fees. Attempts have been made to find support, but without success. The BBC is running 11 fully professional orchestras, will be some 5,000 a year.

New President for Cheltenham festivals

by DOMINIC GILL

Evelyn Brancart

by DOMINIC GILL

Evelyn Brancart is a 22-year-old pianist from Belgium who Variations of the third, for example, a breathtaking dash of liquid fire; the fifth, sixth and seventh in sequence, delivered in fine, grand style. Occasionally one missed a broader sense of poise and repose—in the more serious variations especially, nos. 4 and 12 and to give the glissandi of no. 13 strictly in tempo is an odd idea, and an odd effect. But the notes lie under her fingers superbly well. It is already a remarkable achievement, and a performance, as it matures, of spectacular promise.

New British musical for Her Majesty's

by DOMINIC GILL

Fire Angel, a new large-scale musical, will open at Her Majesty's Theatre on March 24. It is freely adapted from The Merchant of Venice, though the list of dramatic personae hardly suggests this—Baruch, Deborah, Mama Doc, Bobby and Diarrhoea.

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ENTERTAINMENT GUIDE

| OPERA & BALLET | THEATRES | CINEMAS |
|--|---|---|
| ENGLISH NATIONAL OPERA 7.30 p.m. Thu. 6.50 p.m. Fri. 7.30 p.m. Sat. 7.30 p.m. Sun. 7.30 p.m. The Royal Opera House, Covent Garden | DUKE OF YORKS 8.15 p.m. Wed. 8.15 p.m. Thu. 8.15 p.m. Fri. 8.15 p.m. Sat. 8.15 p.m. Sun. 8.15 p.m. Theatre Royal, Haymarket | ABC 1 & 2 Sat. 8.15 p.m. Sun. 8.15 p.m. ABC 1 & 2, Sat. 8.15 p.m. Sun. 8.15 p.m. |
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EUROPEAN NEWS

U.S. offers Nato cash boost

BY GUY DE JONQUIERES, COMMON MARKET CORRESPONDENT

BRUSSELS, Jan. 24.

THE CARTER administration at the time of their discussions would be prepared to step up with Mr. Mondale, there was no immediate indication of which, beyond future increases already scheduled, if the European would be prepared to go along with the alliance also with the American offer. It is agreed to enlarge their contributions, the new U.S. Vice President, Mr. Walter Mondale, said.

At a news conference after a private meeting with the Secretary-General, Mr. Joseph Luns, and Nato ambassadors here, Mr. Mondale made it clear that the U.S. saw the proposal as a step towards improving the alliance's military effectiveness in the face of the growing Soviet build-up in Eastern Europe within the past few years and rising Soviet arms expenditures.

He indicated that the proposed increase should be used to improve Nato weaponry and hardware, but not to increase U.S. troop levels in Europe. He maintained that the U.S. could find the extra money for Nato, while also carrying out President Carter's pledge to trim the U.S. defence budget, by promoting greater efficiency in its military programmes.

Although the Nato ambassadors generally expressed pleasure

with the U.S. offer, there was no indication of which, beyond future increases already scheduled, if the European would be prepared to go along with the alliance also with the American offer. It is agreed to enlarge their contributions, the new U.S. Vice President, Mr. Walter Mondale, said.

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Qualified confidence in IFO survey

By Adrian Dicks

BONN, Jan. 24.

CONFIDENCE in West German manufacturing industry once again improved last month, but was heavily qualified by doubts about how long the business climate will remain satisfactory, according to the latest survey of companies carried out by the IFO economic research institute of Munich last month.

The IFO report reaches this conclusion in spite of the slight downward trend of production and order figures during December, which the institute ascribes as no more than seasonal. After correction, it concludes that the average order book for manufacturing industry, of 2.5 working months, was unchanged from the level in September.

A majority of companies responding to the survey judged present business conditions as being entirely satisfactory, but personal ambition. While he certainly wants to become President of the republic one day, he is also sincerely concerned about preventing the Socialist-Communist union of the Left from winning the municipal elections next March and the general election in the following spring.

And, at the same time, he is determined to preserve the Gaullist Party as the major political force in the country. To accuse him, as several Gaullist political leaders have done, of wanting to undermine the French constitution or to scuttle the Minister Raymond Barre's economic stabilisation plan is clearly excessive. But he has laid himself open to such charges by the striking contradictions inherent in his policies and his successive theatrical coups.

Mr. Chirac has repeatedly claimed that none of his spectacular moves over the last seven months or so was intended as an attack against M. Giscard d'Estaing personally, or even less on his position as President of the Republic and the supreme power in the land. Yet everything he has done has implied strong criticism of the President and his policies.

When he resigned last July, he gave as his reasons that he had not had enough power to co-ordinate the policies of the coalition parties and to prepare them for the forthcoming elections. When M. Chirac created last month what he hopes will become a rejuvenated Gaullist Party, he was clearly not on his own. He had been seen as a disorganised coalition with a spearhead to defeat the Left.

Last week, a similar explanation was given for his resignation. He said he had not had enough power to co-ordinate the policies of the coalition parties and to prepare them for the forthcoming elections. When M. Chirac created last month what he hopes will become a rejuvenated Gaullist Party, he was clearly not on his own. He had been seen as a disorganised coalition with a spearhead to defeat the Left.

As always in politics, these official explanations tell only half the story. The other half is the sad fact of the rivalry that has existed between the Gaullists, still the biggest group in Parliament, and the parties supporting the President since the early days of the two-and-a-half-year Gaullist administration. The "advanced liberal society" and its less nationalistic foreign policies have never been in the taste of the Gaullists, who have merely

waited for the propitious moment to show their disapproval and independence. That rivalry has now become so acute that the least incident can spark off a clash between the Gaullists and the Centre parties, and the question of who will give Paris a fully-fledged Mayor for the first time for more than a century.

During the past 100 years, the city council has been no more than a rubber-stamp organisation for Government decisions, without any real financial control, and the real power has been in the hands of two government representatives, the Prefect of Paris and the Prefect of Police.

The new Mayor of Paris, however, will be a very powerful person indeed. His council will have a budget of Fr.7bn (about £820m) and 35,000 civil servants to administer and will have the power to levy local taxes. The middle of this year without a

THE PARIS MAYORAL ELECTION

Chirac's gauntlet

BY ROBERT MAUTHNER IN PARIS

THE DECISION by M. Jacques Chirac, the former Prime Minister, to run for the new post of Mayor of Paris against an officially designated Government candidate has once again underlined the chronic weakness of President Giscard d'Estaing's coalition Government. All the President's efforts to undermine the "pluralistic" nature of the coalition and his public espousal of the philosophy that agreement on fundamentals does not necessarily oblige the coalition partners to agree on every aspect of Government policy have proved fruitless.

It would doubtless be unfair to present M. Chirac's step as being entirely motivated by personal ambition. While he certainly wants to become President of the republic one day, he is also sincerely concerned about preventing the Socialist-Communist union of the Left from winning the municipal elections next March and the general election in the following spring.

And, at the same time, he is determined to preserve the Gaullist Party as the major political force in the country. To accuse him, as several Gaullist political leaders have done, of wanting to undermine the French constitution or to scuttle the Minister Raymond Barre's economic stabilisation plan is clearly excessive. But he has laid himself open to such charges by the striking contradictions inherent in his policies and his successive theatrical coups.

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It would doubtless be unfair to present M. Chirac's step as being entirely motivated by personal ambition. While he certainly wants to become President of the republic one day, he is also sincerely concerned about preventing the Socialist-Communist union of the Left from winning the municipal elections next March and the general election in the following spring.

And, at the same time, he is determined to preserve the Gaullist Party as the major political force in the country. To accuse him, as several Gaullist political leaders have done, of wanting to undermine the French constitution or to scuttle the Minister Raymond Barre's economic stabilisation plan is clearly excessive. But he has laid himself open to such charges by the striking contradictions inherent in his policies and his successive theatrical coups.

Mr. Chirac has repeatedly claimed that none of his spectacular moves over the last seven months or so was intended as an attack against M. Giscard d'Estaing personally, or even less on his position as President of the Republic and the supreme power in the land. Yet everything he has done has implied strong criticism of the President and his policies.

When he resigned last July, he gave as his reasons that he had not had enough power to co-ordinate the policies of the coalition parties and to prepare them for the forthcoming elections. When M. Chirac created last month what he hopes will become a rejuvenated Gaullist Party, he was clearly not on his own. He had been seen as a disorganised coalition with a spearhead to defeat the Left.

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As always in politics, these official explanations tell only half the story. The other half is the sad fact of the rivalry that has existed between the Gaullists, still the biggest group in Parliament, and the parties supporting the President since the early days of the two-and-a-half-year Gaullist administration. The "advanced liberal society" and its less nationalistic foreign policies have never been in the taste of the Gaullists, who have merely

waited for the propitious moment to show their disapproval and independence. That rivalry has now become so acute that the least incident can spark off a clash between the Gaullists and the Centre parties, and the question of who will give Paris a fully-fledged Mayor for the first time for more than a century.

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More Turkish troops to quit Cyprus

A thousand Turkish soldiers are being withdrawn from northern Cyprus to the mainland, writes our Ankara correspondent. With the withdrawal of the "gendarme commandos," the number of troops recalled from Cyprus since the 1974 war will have reached 12,000, according to the general staff headquarters. It is believed that some 23,000 Turkish troops are still based in northern Cyprus.

Non-Swiss decline
The number of foreigners resident in Switzerland for the third year running in 1976, reaching a level of 553,590 at the end of the year, or the lowest total since 1969, writes our Geneva correspondent. The 3.3 per cent decline in the foreign population brought the percentage of foreign citizens in the total resident population down from 16.1 to 15.3 per cent.

Danish jobless
Unemployment in Denmark rose substantially in December to involve 8.1 per cent of the total working force, the Bureau of Statistics announced yesterday. AP-DJ reports from Copenhagen.

Greek wages
Minimum wages in Greece could be increased by about 15 per cent this year, writes our Athens correspondent. During negotiations which began on Friday, the General Confederation of Labour asked for a 22 per cent increase. The Federation of Greek Industries is offering 12 per cent.

Lira steady as Italy eases curbs

BY DOMINICK J. COYLE

ROME, Jan. 24.

A FURTHER half-point reduction today in Italy's temporary surcharge on foreign exchange transactions was greeted calmly in the market where the lira closed virtually unchanged against the U.S. dollar. Trading was described as "normal for this abnormal period" and no significant support intervention by the Bank of Italy was reported.

Dealers, however, stressed that the market is still subject to myriad restrictions, including the continuing but reduced import deposit scheme, and said it will be another month at least before the lira has withstood normal market forces. The surcharge will be eliminated by the middle of next month, and import deposits are due to end in April.

The minority Christian Democrat Government of Sig. Giulio Andreotti is hoping that meanwhile labour and management will have reached a compromise agreement on incomes policy

that will satisfy the requirements of the International Monetary Fund (IMF) loan, under negotiation for almost a year, expected to be followed by a new loan facility through the EEC and possibly an additional multilateral aid package, all designed to bolster the lira.

A key element in all of this is the resumed talks here to morrow between industry leaders in Confindustria and the country's three trade union confederations. Sig. Andreotti would prefer this bilateral forum to produce an agreement, but the Government may be forced to intervene to secure an early agreement.

The Socialists, meanwhile, above signs of wanting to disturb the relative political calm since Sig. Andreotti's inconclusive general election last year. The Socialists, ranked third behind the Christian

Democrats and the Communists, are yet again exposing publicly their own internal disputes. The frustration of being out of Government and virtually sandwiched between the Christian Democrats and the Communists is showing through. One faction appears anxious to try to re-enter Government with the Christian Democrats in another centre-left coalition.

However, since it was the Socialists' abrupt withdrawal from last year's premature general election, Sig. Andreotti may want to think long and hard before agreeing to another venture.

Italy's cost-of-living index rose 21.3 per cent between November, 1975, and November, 1976, the Government said today. UPI reports from Rome. The index rose 2.2 per cent between October and November, 1976.

Wider EEC debate on transport urged

BY DAVID BUCHAN

BRUSSELS, Jan. 24.

THE NEW British president of the EEC Transport Council, Mr. William Rodgers, today urged members of the European Parliament transport committee not to "lose sight of the wood for the trees" and called for far more sweeping debate of general European transport issues.

Mr. Rodgers, the U.K. Transport Secretary, was laying out the broad outline of transport standards for cars, and the policy under the British presidency for the next six months, and on heavy lorries. At the same meeting the new Commissioner for EEC Transport Affairs, Mr. Richard Burke, of Ireland, also made his first public debut.

It was Mr. Rodgers' particular hope that under the British presidency two issues would be disposed of: the "rounding off" of a package of harmonised

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Daoud 'willing to be tried' in W. Germany

BONN, Jan. 24.

ABU DAUOD, the representative of the Palestine Liberation Organisation who was released after arrest in Paris this month, is willing to be tried in West Germany on charges that he helped organise the massacre of Israeli athletes at the Munich Olympic Games in 1972. This was stated here, in an interview published today, by Abdullah Franzi, the PLO representative in Bonn.

Mr. Franzi told the West German magazine Der Spiegel that West Germany merely had to ask the PLO to extradite Daoud. He made the offer on his arrival in Algeria after being released in France despite West Germany's announced intention to ask for his extradition.

Mr. Franzi said that Daoud was not involved in the 1972 Munich massacre by the Black September Palestinian guerrilla group UPI.

Poniatowski attack sharpens controversy

BY OUR OWN CORRESPONDENT

PARIS, Jan. 24.

THE BITTER controversy between the French coalition parties over the decision by M. Jacques Chirac to run for Mayor of Paris intensified over the weekend with a sharp attack on the former Prime Minister by M. Michel Poniatowski, the Minister of the Interior.

M. Poniatowski accused M. Chirac of dividing the Government coalition and said that the latter had presented the Socialist-Communist Opposition in Paris with a trump card.

M. Chirac could not expect to be taken seriously when he claimed that his candidature was necessary to prevent the Opposition from winning the forthcoming municipal elections in the capital, M. Poniatowski said. The Opposition originally had no chance of winning these elections. But M. Chirac had now given them a chance.

Meanwhile, M. Chirac has poured fuel on the fire by suggesting in a radio interview that President Giscard could have to resign if the Left won next year's general election. A victory of the Left would provoke a major political and constitutional crisis, M. Chirac claimed.

President, who had been elected on a completely different political platform could carry on in such circumstances. M. Giscard d'Estaing, himself, on the other hand, has always insisted that he would see out his term in office, which ends in 1981, whatever the result of the 1977 election.

Speaking to the French community in Riyadh today, President Giscard accused M. Chirac of splitting France. "The Government of France," he said, "is not a personal ambition, but a national duty."

President Giscard said that he did not see how the

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AMERICAN NEWS

SALT 'would not avoid' Cruise, Backfire issues

BY DAVID BELL

MR. CYRUS VANCE, the U.S. Secretary of State, moved this afternoon to clarify remarks made by President Carter in the course of a long interview during which he called for an immediate end to all nuclear testing and said he expects a new strategic arms agreement fairly soon.

There was some confusion after Mr. Carter told four news agency reporters that a new SALT agreement, on the lines of that outlined at Vladivostok, was one of his major priorities. Asked about the U.S. Cruise missile and the Soviet Backfire bomber, which are widely believed to be the two major obstacles in the way of such an agreement, Mr. Carter said: "I would not let those two items stand in the way of some agreement."

Mr. Vance said today that this did not mean the two weapons would be left aside until later. "That is not correct. The questions of Cruise and Backfire are still very much open for discussion in the SALT II talks," he said.

The U.S. has asserted that the Backfire is a strategic weapon

because it can reach the United States carrying nuclear weapons. The Russians have countered that the Cruise missile is also clearly a strategic weapon unless its range can be restricted. The Cruise is a long-range low-flying bomb which is small enough to evade detection and can be launched from aircraft or submarines. Final development is now underway but the missile has yet to go into production.

In its last few days the Ford administration dropped a number of hints that a way might be found to get round the Cruise question and Mr. Carter said today that he will shortly appoint a senior official to negotiate the details of the SALT question. He may combine this with post as director of the Arms Control and Disarmament Agency (ACDA).

The President disclosed during his interview that he has asked the Soviet Union to join the U.S. in halting "instantly and completely" all nuclear testing as the first step in his ambitious programme to curb the spread of nuclear weapons.

He said that the Russians had sent him an "encouraging message" about his proposal and that he wanted to move "quickly and aggressively" to reach agree-

WASHINGTON, Jan. 24.

ment with the Soviet Union both about atomic tests and about the mutual reduction of atomic stockpiles. But he said he did not know if the Russians would be prepared to agree to a complete halt even of underground testing.

Mr. Carter said that his Administration would not suspend current arms supply contracts to other nations but would be very firm about approving them in the future. He also said he thinks a Middle East conference is likely later this year and that although the question of Palestinian participation has not been discussed within the Administration, it was probable that the Palestinians would be represented as "part of one of the Arab delegations."

He also confirmed reports that Mr. Vance will leave for the Middle East next month to meet the heads of State of Israel, Egypt, Syria, Saudi Arabia and Jordan. Any of these leaders, he said, would be invited to Washington later this year.

● The White House also announced this afternoon that the President of Mexico and the Prime Minister of Canada are to be the first two foreign leaders to visit Mr. Carter in Washington.

Levesque seeks U.S. investors' support

MONTREAL, Jan. 24.

THE QUEBEC Premier, Mr. René Levesque, flew to the U.S. today to address the Economic Club of New York.

Two months after a tide of nationalism brought his Parti Québécois to power in the province, Mr. Levesque is confronted with the ironic fact that in order to carry out his commitment to make Quebec independent of Canada, he must first convince the U.S. investment community of the stability of the province.

Much of Quebec's industrial base is dependent on U.S. businessmen and investors. The French Canadian realist that these U.S. interests are wary of Mr. Levesque's policies, in particular the possible takeover of U.S.-controlled companies.

Mr. Levesque, who is placing great importance on his appearance before the Economic Club audience, is accompanied by three top Cabinet Ministers, including Finance Minister Jacques Parizeau and Energy Minister Guy Jorm, a former stockbroker. Also in the delegation are a deputy Finance Minister and four senior executives of the Government-owned electric utility, Hydro-Québec, a major borrower in the U.S.

While in New York, Mr. Levesque and his Ministers will also spend a good deal of time in private meetings with financial and business executives. The Premier will try to convince them that his brand of socialism does not include the immediate provincial takeover of key industries in which U.S. companies have a major investment.

Quebec needs U.S. investors. In 1972, the latest available figures show, close to 30 per cent. of the province's \$15,000m. of manufacturing shipments came from U.S.-controlled companies, as well as nearly 25 per cent. of manufacturing jobs.

MEXICAN OIL POLITICS

The headache is just beginning

BY ALAN RIDING IN MEXICO



President Portillo

MEXICO'S economic crisis is forcing the Government of President José López Portillo to depend on the availability of financing and, more significantly, the country's oil reserves. The controversy over whether the reserves should be exploited quickly or preserved for future generations, has unavoidably been resolved by the need for a rapid increase in exports.

Having grown slowly to average just 100,000 barrels per day last year, exports of crude and refined oil are now scheduled to exceed 1.1m. B/D by the time Sr. López Portillo leaves office in 1982. At current prices, this could mean annual oil revenues of \$8bn. within six years, 80 per cent. more than the value of Mexico's total visible exports in 1976.

Succumbing to the pressure to export from foreign creditors was made easier by the recent discovery of new oil deposits in four different regions of the country. In addition, only five of the estimated 180 oil-bearing structures in the south-eastern States of Chiapas and Tabasco have so far been exploited.

The first move of the new head of the State oil monopoly, Pemex, was therefore to raise the estimate of total reserves from the 6,300m. barrels estimate announced last March to 11,000m. barrels.

Some observers have suggested cynically that this revision was merely to reassure foreign bankers, who during 1977 will be asked to increase Mexico's foreign debt by a further \$3bn. to around \$28bn. But both Government and Pemex sources insist that the 11,000m. barrels estimate is by 1982—once again depending on "highly conservative" estimates.

Some responsible officials have even privately mentioned estimates of five to ten times that size to eliminate all doubts, though a U.S. firm, Degussa and Naughton Inc., has been brought in to make an independent assessment of Mexico's current reserves.

The rate of exploitation of these reserves, however, will depend on the availability of financing and, more significantly, Pemex is expected to turn shortly to the Eurodollar market for the first of a series of large new loans for the \$15bn. investment programme it plans during the six-year administration. While foreign banks are beginning to think twice about lending to the Mexican Government, Pemex's credit standing is so high that no serious financial problems are expected. The shortage of oil drilling and development equipment, though, could be a problem as it has been here over the past three years.

Projections for Mexico's oil production by 1982 therefore vary between a low of 1,600,000 B/D and a high of 2,240,000 B/D, depending on financial and technical factors. One additional factor, of course, is the performance of the economy as a whole and of the external sector in particular: continuing economic and payments difficulties might force the Government to channel additional resources from other projects towards Pemex.

As did the administration of former President Luis Echeverría, this Government wants to maximise exports of refined rather than crude oil. But it now recognises that resources will not be available to expand Pemex's refining capacity with all the massive exports of crude. "We must export crude in order to stop exporting crude," officials are now saying. Refining capacity is nevertheless expected to increase from the present 1,600,000 B/D to 1,870,000 B/D by 1982—once again depending on financial and technical factors—while an investment of \$2,750m. is planned for the five to ten times that size to eliminate all doubts, though a U.S. firm, Degussa and Naughton Inc., has been brought in to make an independent assessment of Mexico's current reserves.

near the Port of Tampico, which is the continuation south-west of the continental shelf being exploited by the U.S. near New Orleans at Cotaxila, to the south of Veracruz on the Gulf of Mexico, near Nuevo Laredo on the border with the U.S. (presumed to be an extension of the Texas fields); and at Sebastia Vizcaino on the barely-prospected peninsula of Baja California. According to Pemex director Sr. Jorge Diaz Serrano, only 1 per cent. of Mexico's sedimentary rock areas have so far been explored.

With exports of barely 100,000 B/D, Mexico has until now been able to justify its not being a member of the Organisation of Petroleum Exporting Countries, although it has always followed Opec prices, and this month has raised its crude sale price to \$12.65 per barrel (1 per cent. higher than OPEC previous base of \$11.50, although only 2.8 per cent. higher than the \$12.30 B/D at which, thanks to the transport cost, Mexico had been selling its oil).

Mexico nevertheless has good reasons not to join OPEC membership would exclude Mexico from the benefits of the trade preferences offered by the 1974 U.S. Trade Act, and participation in OPEC would inevitably bring tensions to Mexico's relations with the U.S., as has been the case for Venezuela.

But with expected production of 2.2m. B/D and possible exports of 1.1m. B/D within six years, Mexico will clearly be under greater pressure to join OPEC, above all since most of its exports now go to the U.S. and will continue to do so.

With the prospect of obtaining a significant amount of oil imported from a non-OPEC member, on the other hand, Washington will in turn pressure Mexico to keep up the pace of the cartel. Thus while the promise of Mexican oil may at last be coming true, the headaches of world oil politics are just beginning.

Senators call for stronger Nato

BY OUR OWN CORRESPONDENT

WASHINGTON, Jan. 24.

DESCRIBING Nato's southern flank as a "shambles" and its northern flank as "little better," two influential U.S. senators called today for a greater U.S. commitment to Nato and the modernisation, improvement and re-positioning of the alliance's ground forces.

Senators Sam Nunn and Dewey Bartles, of the Armed Services Committee, issued a detailed report this morning on what they claim are the major shortcomings in the alliance that they discovered on their trip to Europe last year.

Their report charges that Nato is not properly organised to meet a sudden invasion by Warsaw Pact forces in central Europe and says that the Pact's forces have the capacity to launch such an attack following their re-equipment and enlargement during the past few years.

The senators say that it appears that the Warsaw Pact is well aware of the political and military weaknesses within the

Alliance which might impede a rapid Nato response to aggression and has tailored its strategy to exploit fully the very weaknesses in Nato's conventional posture which have always plagued the Alliance. In addition, the Alliance's southern flank has been gravely weakened, they say, by Italy's economic problems and dissension between Greece and Turkey. In the north neither Norway nor Denmark as yet appears to be predisposed to take the initiative necessary to improve the situation.

The report calls on the Pentagon and the Alliance to expect a much shorter period of advance warning of a Pact attack than envisaged in current plans. It also calls on the Alliance to consider the possibility of keeping Pact military intentions. U.S. President Carter spoke often during his election campaign of the need to improve U.S. ties with the Alliance, but senators are waiting to see concrete signs of this commitment.

The senators also call for a "quantum jump" in Alliance fire power and urge a major increase in Nato artillery, anti-tank and anti-aircraft defence system strength. Selected U.S. and European units should at the same time be "repositioned eastwards" to their "assigned war-time positions," and Nato should improve its air transport capability so that U.S. and British reinforcements could be airlifted to central Europe much more rapidly than currently planned.

The release of this report coincides with U.S. Vice-President Mondale's visit to Europe and with growing concern inside and outside the Senate about Soviet and Warsaw Pact military intentions. U.S. President Carter spoke often during his election campaign of the need to improve U.S. ties with the Alliance, but senators are waiting to see concrete signs of this commitment.

Carter pledge of swift action on energy policy

BY STEWART FLEMING

NEW YORK, Jan. 24.

AFTER A WEEK-END during which he urged householders to turn down central heating thermostats and save power, Jimmy Carter, the U.S. President, today underlined the high priority he is giving to developing a comprehensive U.S. energy policy.

In an interview he said that within the next 90 days he would submit to Congress wide-ranging proposals aimed at developing a national energy policy.

He also rescinded one of Mr. Gerald Ford's last acts as President by withdrawing a plan to lift price controls on petrol. He made it clear, however, that the decision implied no judgment on petrol price regulation, but rather reflected his decision to conduct a full review of the nation's

energy. Democrats in Congress had suggested that deregulation could add 6 cents to the price of petrol per gallon, but the Federal Energy Administration had maintained price increases would only be about 2 cents a gallon.

Already President Carter has indicated that the dislocation, particularly in natural gas supplies, caused by the recent cold weather have brought the energy issue to the fore.

Urging domestic users to lower the heating in their houses, he said he may submit to Congress within the next few days proposals to allow natural gas pipelines to divert supplies to areas hard-hit by shortages.

In the past two weeks, plants in many parts of the country have been closed temporarily owing to natural gas shortages. Current estimates suggest almost 200,000 workers are temporarily laid off due to acute gas shortages while lack of heating is keeping about 300,000 children out of schools.

Only this morning one gas company, UGI Corporation, said it has told 48 major commercial and industrial companies in Eastern Pennsylvania that their critical use have deliveries of natural gas will be cut by 75 per cent. for the rest of the winter. It said it expected the decision to affect 63,000 jobs in companies which would not readily switch to alternative fuels.

Among the companies affected, UGI named Bethlehem Steel, Aluminum Company of America and Hershey Foods.

In this time the Federal Power Commission has approved several emergency contracts allowing gas utilities to buy natural gas at prices higher than the \$1.42 per 1,000 cubic feet maximum price fixed by the agency for newly discovered gas.

Investment from abroad up in U.S.

NEW YORK, Jan. 24.

FOREIGN companies announced 250 investments in U.S. manufacturing facilities during 1976 compared with 159 in 1975, with a growing share of the investments representing acquisitions, a survey by the Conference Board shows.

About 43 per cent. of the 1976 investments involved the acquisition of existing U.S. companies, the first year since the survey began nine years ago that a major share of new investments represented takeovers, said the Board, which is a non-profit economic research institute.

About 40 per cent. of last year's investment was spent on building new facilities and 17 per cent. on expanding existing facilities. Canada accounted for 61 foreign investments in U.S. manufacturing last year, followed by West Germany (38), Britain (36), France (25), Japan (18), the survey said. Capital spending figures were announced by more than half of these companies, amounting to \$1.7bn. Reuter

Accountants to check tests of pipeline welds

WASHINGTON, Jan. 24.

PROCEDURES used to test welds on the 800-mile trans-Alaska pipeline will be checked by a public accountant, the U.S. Interior Department said today. Last year inspectors found hundreds of faulty welds on the line which had to be repaired.

The Department said it had hired the Lester Witte Company of Chicago to determine if the Alyeska company had an X-ray of every weld on the pipeline between the oil fields on the north shore and the south shore port of Valdez.

"The audit is being conducted to verify that Alyeska has followed adequate procedures to demonstrate that a radiographic film exists for every weld," a Department statement said.

Alyeska is a consortium of several oil companies involved in building the pipeline. Construction is expected to be finished this summer and the pipeline would then begin carrying up to 2m. gallons of oil a day. Reuter

Guyana seeks Comecon link

By Our Own Correspondent

GEORGETOWN, Jan. 24. GUYANA has applied for formal association with Comecon, the East Europe economic grouping. A letter to this effect was handed to the Common Executive Committee by Mr. Desmond Hoyte, the Guyana Economic Development Minister, after he addressed the committee's meeting in Havana last week.

Steel imports up 26% in November

NEW YORK, Jan. 24.

THE AMERICAN Institute for Importing Steel reported today that U.S. steel imports in November were 1,598,854 short tons, up 26 per cent. from the 1,267,934 short tons imported in October.

U.S. steel exports totalled 186,043 short tons in November, a rise of 1.6 per cent. from October's export total of 183,082 short tons.

Compared with 1975, imports in November rose 78.3 per cent. from 902,900 short tons while exports rose 0.6 per cent. from 184,907 short tons.

For the 11 months ended November 1976, imports totalled 12,350,231 short tons compared with the year-earlier 10,589,875 short tons. Exports for the 11-month period totalled 2,425,300 in 1976 and 2,771,450 in 1975. AP-DJ

Svenska Handelsbanken 9½% US-\$ bond loan 1976/1986 Drawing by lot for redemption as per March 1, 1977

Pursuant to paragraph 5 of the terms and conditions of the above mentioned bond loan, the first drawing by lot was effected on January 19, 1977 in the presence of a Notary Public. Bonds in the nominal amount of US\$1,000,000 have been drawn for redemption as per March 1, 1977.

The series 20 comprising the bonds Nos. 19001 to 20000 with a nominal value of US\$1,000 each, has been drawn. The bonds drawn by lot are redeemable at par from March 1, 1977 onwards against presentation of the bonds and coupons due on March 1, 1978 and following. Payment may be claimed from any of the following Paying Agents:

Westminster Bank plc, London
Citibank N.Y. & London
Commerzbank AG, Frankfurt
Crédit Commercial de France
Banque Paribas, Paris
Girozentrale und Bank der Österreichischen Sparkassen Aktiengesellschaft, Vienna
Kreditbank S.A., Luxembourg
Nordbank AG, Zurich
Norddeutsche Bank AG, Hamburg
Northern American Banking Corp., New York
S. G. Warburg & Co. Ltd., London

Payment of interest against the bonds drawn by lot will be discontinued at the end of February 1977. The equivalent of possibly missing coupons will be deducted from the capital amount.

After this redemption the nominal value of the bonds outstanding amounts to US\$29,000,000.

Stockholm, January 1977. Svenska Handelsbanken

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Representative office,
9 St. Colme Street. Tel: 031-225 2700
Other European Locations
Antwerp, Brussels, Liège, Düsseldorf,
Munich, Frankfurt, Piraeus, Athens,
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Amsterdam, Milan, Rome, Paris,
Vienna, Geneva and Zurich.

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No one tries harder than Avis.

Like the time our rental sales agent Evelyn Tearall, having worked a normal 7am-3pm shift, returned at 23.00hrs. after the office had closed, to meet eight Avis customers off a delayed flight and hand them over their cars.

Like the time Avis secretary Joan Knight came to the rescue of an Avis customer involved in an accident near Heathrow. She gave him coffee, looked after his luggage, then drove him to Avis Heathrow to pick up another car.

Like the way Avis mechanic Stanley Satchell gave up his Saturday afternoon to rewire the window control of an Avis Rolls Royce so that it could be rented out.

Like the way we have 70 offices at major cities throughout the UK, including 20 airports.

Like our one way rental service.

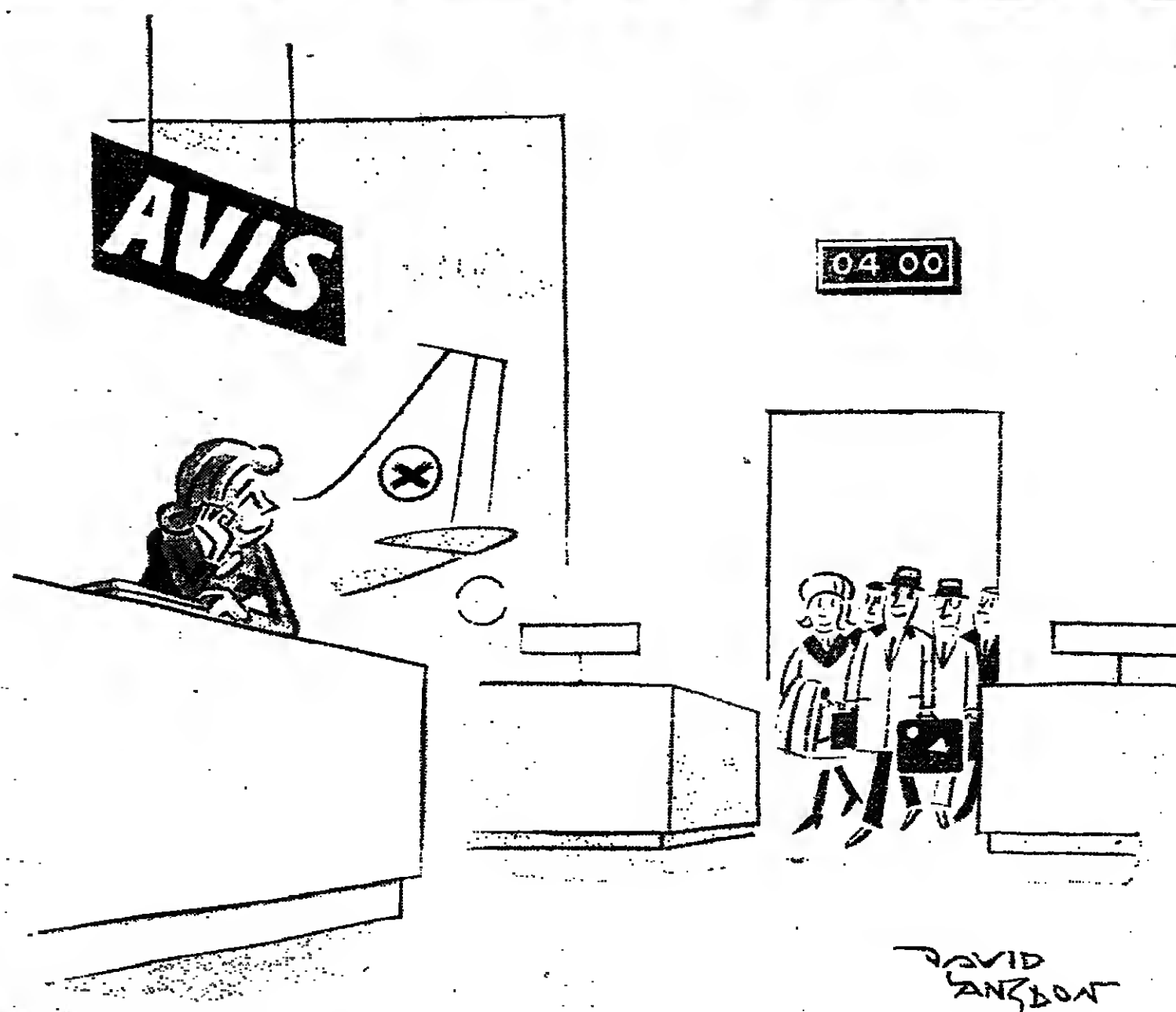
Like the condition and newness of our cars; few are older than 9 months.

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**We try
harder.**

We rent Chrysler and other fine cars.

TO RESERVE A CAR CALL YOUR TRAVEL AGENT OR NEAREST AVIS OFFICE IN MAJOR CITIES THE NUMBERS ARE:
LONDON 848 8733 BELFAST 83044 BIRMINGHAM 622 4262 BRISTOL 292125 CARDIFF 42111 EDINBURGH 337 6353 GLASGOW 221 2827 LEEDS 444911 LIVERPOOL 709 4737 MANCHESTER 236 6716 NEWCASTLE 55263 SOUTHAMPTON 25767.



HOME NEWS

W. German trawler damage closes Beryl field well

BY RHYS DAVID

DAMAGE CAUSED by a West German trawler to undersea oil installations in the North Sea has resulted in the shutting down of a well in the Beryl field, with the loss of 6,500 barrels a day for the past six weeks.

The incident, which was related yesterday, has led to discussions between the company and the West German trawler company, which have given assurances that they understand the dangers of straying close to the North Sea installations.

Mr. Mobil said yesterday that it was a serious times between November

No spillage

One vessel damaged an electric control cable running from the platform to one of the wells from which oil is being extracted.

21 and December 9 up to 12 West German vessels were seen close to the Beryl platform, 210 miles north-east of Aberdeen. The 500-metre safety zone around the platform and the tanker landing buoy over a mile away was entered by several of these trawlers.

An expensive drilling rig has had to be hired and taken to the scene to help with repairs. Mobil was unwilling yesterday to estimate the cost of lost production and repairs.

The incident highlights warnings from all the oil companies at work in the North Sea of

the danger of foreign trawlers ignoring regulations forbidding them to sail too close to platforms. This is thought to be the first time damage has been caused.

A Royal Navy vessel was sent to the area, but the trawlers had left before it arrived.

The Department of Energy said yesterday that normal procedures had been followed and denied reports that Mr. Anthony Wedgwood Benn, Secretary for Energy, had at any time ordered Royal Marines to board the offending vessel.



Mr. Callaghan, the Prime Minister, and Herr Schmidt, the West German Chancellor, share a joke before facing the Press following two days of talks at Chequers and Downing Street.

Tobacco substitute findings soon

BY STUART ALEXANDER

IMPERIAL TOBACCO expects to present the last of its research into tobacco substitute to the Joint Committee in the next few weeks.

Imperial has been collating information from the long-term end-of-the-line tests into New Smoking Material which it has developed jointly with ICI.

Imperial is hoping for an early indication from the government-appointed committee on whether it is likely to authorise the use of the substitute.

The committee will also deliberate on the laboratory information provided by the Celanese Corporation of America on its tobacco substitute.

Asbestos danger statement

By David Fishlock, Science Editor

THE DANGER FROM ASBESTOS in buildings is likely to arise only when materials containing it are damaged and fibres released into the atmosphere, said an interim statement from the Government's Advisory Committee on Asbestos.

The committee, under the chairmanship of Mr. Bill Simpson, chairman of the Health and Safety Commission, was set up in March to review health risks associated with asbestos both at work and in the home.

It recommends that exposure to all forms of asbestos be reduced to the "minimum reasonably practicable." Certain hygiene standards should not be exceeded for occupational exposure to asbestos dust.

On domestic exposure, the committee says there is little risk from products as "used normally and are in good condition." It offers guidelines for the do-it-yourself user of asbestos products, mostly dealing with avoidance of dust.

Asbestos health hazards and precautions: an interim statement by the Advisory Committee on Asbestos, published by the Health and Safety Commission, 50, 10p.

IN BRIEF

Mail verdict on Thursday

The Appeal Court will give its decision in the South African mail boycott case on Thursday. The hearing ended last Friday. Senior judges will be given by Lord Denning, Master of the Rolls, Lord Justice Lawton, and Lord O'Hara.

Farm price freeze

A relaxation of the price code and a European freeze on farm prices were called for yesterday by Mr. Derrick Hornby, new president of the Food Manufacturers' Association.

Tanker agreement

Representatives of the world's oil tanker industry agreed yesterday to continue their search for a solution to the tanker surplus problem.

Schools 'undemocratic'

Britain's school system was "inherently undemocratic," the National Union of Students said yesterday. It accused schools of failing to prepare students for their role in society.

The Government, of for, and by the people is a concept almost totally alien to the school.

Mason visits Dublin for talks

BY GILES MERRITT

CLOSER CROSS-BORDER co-operation on economic development and security procedures topped the agenda at Ministerial talks here today during the one-day visit to the city of Mr. Roy Mason, the Northern Ireland Secretary.

The Irish Government is understood to have been to some extent reassured over the potential dangers of the current "political vacuum" of direct rule in Northern Ireland, after Mr. Mason's discussions with the Dublin Ministers including Mr. Liam Cosgrave, the Prime Minister.

but with limited success.

Many countries are waiting for the Hunter decision before giving the go-ahead for the use of NSM and Cyrtel are that they deliver less far and need not with less irritation.

The Hunter committee has already shown that it has no intention of being rushed into making a decision. It is thought that, with EEC harmonisation due to be completed by the end of this year, Customs and Excise are reluctant to take on a new policing job for what could be an interim period.

The company has held talks with Celanese Corporation over the purchase of Cyrtel and has used an experimental sample batch. Cyrtel is being used in Germany and Switzerland by BAT Industries and Rothmans

América on its tobacco substitute.

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Holiday price fixing at an end

BY ARTHUR SANDLES

BRITAIN'S package tour companies have agreed with the Office of Fair Trading to drop many of their trade restrictions affecting prices. Although this opens the way to a price war, it simply endorses the tacit ending of price regulation which has already taken place this year.

Until now tour operators have been covered by an Association of British Travel Agents membership rule which says that tour companies must stick to the prices they publish in their brochures. Now ABTA has agreed with the OFT that prices can be sold at whatever price the operator decides.

This should not produce differential pricing in retail agencies. ABTA still has a rule registered which prevents retailers from undercutting each other. If tour operators wish to cut prices they must therefore do it nationwide.

Price fixing by tour operators for a year or more ahead showed signs of collapse last year when some operators put photographs in their brochures of the tour they were offering to change the price and yet, they claimed, stay within the ABTA rule of sticking to published rates. A recent lack of bookings and chronic overcapacity in the industry has increased the pressure to abandon even this thin disguise and plunge into price cutting.

British Airways reduced many of its fares by £30 in a New Year sales campaign. The OFT said last night that ABTA had agreed to end its restrictions under which tour operators could not sell holidays below brochure prices; could not offer inducements which effectively reduced the price; and could not offer discounts to other than ABTA agency staff.

The country's short-term crisis was not an accident arising from economic mismanagement. It also reflects a serious long-term problem in the British economy, and the doubts of many outside Britain about our ability to solve it.

A key feature of the long-term problem was low growth. The problem was long-standing and deep-seated and its cure is likely to be correspondingly slow, hard and multifarious.

THE BRITISH AIRPORTS Authority is in spend up to £10m during the next few years on improving Glasgow Airport to cope with increasing passenger demand.

The first stage of this programme has already begun, with the opening of a new £1m baggage-reclaim hall at the airport which is hoped will ease congestion.

Mr. Vivien Camacho, the BAA's director for Scotland, said: "We shall be making extensive alterations to the eastern end of the main terminal building, and we hope as a result greatly to ease congestion at the check-in areas."

The improvement of the airport is part of a major effort by the authority to expand its facilities in Scotland.

THE POSTAL service, which is set to break even this financial year, has been granted £9.2m by the Government as compensation for losses in 1975-76 caused by enforced price restraint.

Discussions took place over many months last year between the Post Office and the Department of Industry on the amount of compensation that should be paid for price restraint, but the Government finally agreed to subsidise the entire losses of the Postal Service.

repeated public statements that direct rule is, as he reiterated today, "purposeful, decisive and of benefit to Northern Ireland," has led to growing official concern in the Republic that the Ulster Catholic minority's moderate Social Democratic and Labour Party may not survive the political vacuum.

The fear is that if the SDLP disappeared, the minority's support would be transferred to militant Republicans and the Provisional IRA.

Mr. Mason said he would shortly be having talks with Ulster's political parties, but there would be "no dramatic initiative" from the Government.

He is evidently prepared, however, to encourage discussion of the modified administrative rather than legislative form of devolution recently proposed by the Official Unionist Party's leader at Westminster.

Discrimination hitting Scotch exports, says Association

BY STUART ALEXANDER

EXPORT SALES of Scotch whisky rose by less than 2 per cent last year to \$1.5m, proof of discrimination against Scotch whisky in the home market of some 200 people.

Mr. Burgess, of the Scotch Whisky Association said in London yesterday.

Mr. Burgess said that at home the industry had been dealt "a savage and discouraging blow" through the imposition during the last two years of an extra £1.17 to duty on a bottle.

The industry also had to fight discrimination abroad. On entering the Common Market "we

were promised that the removal of import duties and trade barriers would give us an enlarged home market of some 200 people.

"Far from reducing trade discrimination against us our partners in Europe have been among the leaders of those who are taking measures to increase it."

"In this they are no doubt encouraged by the short-sighted way in which our own government perpetuates the unfair trading advantage which its taxation policy gives to our competitors."

France had become the third largest export market for Scotch whisky but France was proposing from next month to give its hazy

industry an even greater competitive advantage by raising the tax on Scotch by 11 per cent, while the brandy tax would stay at the old rate.

Rum, because it came from Martinique and Guadeloupe would also be given increased protection. "I can't help thinking how agreeable it must be to work in a country where the government is on one's side," said Mr. Burgess.

Nevertheless, he said the industry looked to the future with restrained optimism but he hoped that the Department of Trade would in future take a more robust stand on behalf of one of the major exporting industries.

3.4m. copies of restyled Express sold

By Michael Thompson-Noel

BEAVERBROOK Newspapers was delighted last night over what it described as the "marvellous" reaction of readers and advertisers to the first issue of its restyled, tabloid Daily Express.

Mr. Brian Nicholson, Beaverbrook's joint deputy managing director, said the print-run for Day 1—slightly more than 3.4m. copies—had been a sell-out.

The first issue of the restyled Express had enjoyed an outstanding production run he added. Yesterday, the newspaper had been "flooded out" with potential advertisers impressed with the new product and convinced that its plan to target editorially on a younger readership was likely to work.

The promotional effort behind the new Express cost £250,000.

Government puts £40m. into new aid schemes

BY ADRIAN HAMILTON

THE DEPARTMENT of Industry yesterday introduced two aid schemes—£20m. for the electronic components industry and £20m. for non-ferrous foundries.

These schemes are part of a programme of specific industry aid projects to encourage a renewal of assets and a product rationalisation in key sectors of the industrial economy.

Both schemes have been designed with the lessons of the previous ones, such as those for the ferrous foundry and machine tool aid projects, very much in mind.

In the case of the electronic components industry, one of the specific aspects included has been the restructuring of companies or a group of companies. Assistance will be available in the form of a loan up to half of the total eligible cost of the project and the loan "will be at the concessionary rate of interest with an interest-free period of up to three years, or more."

appropriate, to the form of a loan under the same conditions.

To be eligible, the total qualifying costs of a project must not normally be less than £50,000 and assistance will only be given to the extent that rationalisation and restructuring costs have been incurred by the end of the year 1979.

The Department's other plan—for non-ferrous foundries follows the successful ferrous foundries scheme.

With the same aim of encouraging a renewal of assets in mind, the scheme is aimed at assisting "new investment in modern plant, equipment, and buildings."

As in the case of other industrial aid schemes, a grant of 25 per cent will be available at the discretion of the Department to meet the eligible costs for investment in plant and machinery.

Airfix given year to decide

BY JAMES McDONALD

AIRFIX—the kits and Meccano toys group—has been given another year by the Government to decide on whether to make a £400,000 cash investment in the loss-making Tri-ang business.

The Airfix original option with the Government to put up more cash for Tri-ang would have run out in two months' time but the time limit has now been extended to March next year.

"The Tri-ang business is still loss making but we hope to be showing a profit in the next few months of this year," Mr. Ralph Ehrmann, Airfix chairman, said yesterday.

"We will take our decision when we are finally satisfied the company is on a viable basis," Airfix took a two-thirds share

stake in Tri-ang in 1975 for a "nominal sum" as part of a rescue package that saw the Government inject more than £1m. into the company with the loss-making Tri-ang business.

Preference capital. The Government holds the remaining one-third of the Ordinary shares of far.

If Airfix decides to take up its option, the Government will, in turn, inject a further £200,000 into Tri-ang and this, effectively, will secure the future of the Merthyr Tydfil-based company that employs just over 600 workers.

Airfix, if it puts up the extra cash, will then have a further option—running to at least another two years—to buy out the Government's remaining one-

third stake in the company. Mr. Ehrmann said last night that there was a "pretty good" chance his group would take up the extended option to put in the further cash. "We are encouraged by the progress so far."

Should Airfix not take up the option—and it will probably make a final decision at the end of this year rather than wait until March next year—the two-thirds interest in Tri-ang would go up for sale.

Meanwhile, the Airfix group is now more than one month into its current financial year and Mr. Ehrmann says he is confident about the group's final results.

NEWS ANALYSIS—TURBINE TROUBLES

'Fingerprints' that saved Drax

BY DAVID FISHLOCK AND ROY HODSON

CLAIMS TOTALLING millions of pounds may be lodged against C. A. Parsons, the turbine makers, by the Central Electricity Generating Board over the failure of two of the three 680 MW turbo-generators at the Drax power station in Yorkshire.

The company is meeting its two main domestic customers, the CEBG and the South of Scotland Electricity Board, at a high-level conference at the Newcastle headquarters today to discuss the logistics of replacing the faulty parts, initially by "canonising" equipment designed for other stations.

The CEBG is being advised that it can seek reimbursement from the manufacturer under clauses in the Drax contract dealing with "latent defects" in the machinery.

The faulty units, each about two years out of its 12-month guarantee period, are made to a design extrapolated from experience with the previous generation of 500 MW machines.

CEBG experts estimate that each of the faulty shafts will cost upwards of £15m. to replace. In addition, use of more expensive, older power stations to fill the power gap created by the loss of the two units could add more than £1m. to the Board's operating costs.

The turbo-generators were guaranteed for a 12-month period in accordance with standard com-

mercial practice. The CEBG and other U.K. utilities have been pressing turbine makers in Britain, Continental Europe, and North America for longer guarantee periods on the grounds that testing troubles in the new generation of large machines can manifest themselves after years rather than months.

Parsons took orders for eight of the 19 680 MW machines ordered for the home market (CEG has the rest). The first three were installed at Drax and two of these have now failed. The third at Drax is to a different design, inherited from GEC when it sold its Drax factory to Parsons in the 1960s.

The remaining five are in the process of being run-up, installed, or constructed for the SSEB. The No. 3 turbine for Inverclyde, not yet delivered, is being sent to Drax instead, with the SSEB's approval.

The CEBG's technical directors believe that a disastrous explosion that would have wrecked the turbine hall of Drax, Britain's newest and biggest coal-fired power station, was averted only by a new system for monitoring plant performance introduced at Drax as an experiment.

Each time one of the turbines was started up or closed down the vibrations of the machine were recorded, giving a trace similar to a weather barograph reading. What the engineers call

a "fingerprint" of the cycle of operations of each machine was obtained.

For more than two years the three Parsons turbines performed perfectly. On November 10 last year, however, the No. 2 machine recorded a completely new set of vibrations. It was immediately closed for investigation.

Cracks were discovered in the main shaft—the heart of the generator. An impressive piece of precision-machined steel, it is more than 80 ft. long between bearings. With the rest of the rotor it weighs about 90 tons. The whole unit revolves at 3,000 rpm.

The engineers were particularly concerned to find circumferential cracks, like gasbores, several inches deep. Round the shaft of Drax 2, had it parted at normal running speed, the consequences would have been a bomb going off—physical damage followed by a fire caused by the oil in the machine.

No. 2 machine failed after 15,000 hours running. The CEBG engineers detected similar mis-runs of No. 1 machine when it too reached 15,000 hours two weeks ago.

There appears to be a connection within the CEBG that the cracks in the shafts stem from machining work during the manufacturing process.

Changes likely at National Freight

By Ian Hargreaves, Industrial Staff

FURTHER CHANGES in the Board and Management structure of the State-owned National Freight Corporation are planned, exactly a year after a big internal shake-up.

Moves to put more professional transport men on the Board come soon after an announcement of similar changes at British Rail, where four railway executives have become directors. British Rail's two-tier Board structure was scrapped.

Mr. William Rodgers, the Transport Secretary, has discussed a similar development at National Freight with Sir Daniel Pettit, the Corporation's chairman.

Mr. Rodgers believes that addition of successful executives to the Board will strengthen its role in controlling the financial performance of its member-companies, which turned in a collective loss in 1976 of £31m. They are expected to report a £15m. loss after interest and pensions liabilities, for 1976.

Appointment of Board members is a matter for the Secretary of State, but Mr. Rodgers was keen to win the support of Sir Daniel, who is now almost certainly in his final three-year term as part-time chairman and chief executive. He is 61 next month.

Easy transition

Changes likely at National Freight

Renault present some of the few remaining places where you won't feel the effects of the squeeze.



AT THE BACK OF A NEW RENAULT 20

If you own a big car, you don't need to be told how badly you're being squeezed.

You want something more than sympathy from the car industry.

You want a remedy.

We're proud to say we have one: the new Renault 20.

As you can see, it's a big car. With an interior of limousine-like proportions. And leg-stretching comfort for five taller-than-average adults.

Yet, remarkable as it may seem, the Renault 20 can average over 30mpg.* Figures that wouldn't disgrace a small car. The Renault 20 also combines other features you'd normally think incompatible.

Estate-car capacity and sporty performance, for instance.

Flip open the tailgate, remove the parcel shelf and there's room for all the luggage you see in the picture above. Fold down the rear seats as well and there's a cavernous 34 cu.ft. of space.

Yet the Renault 20 easily attains 60mph in 12.3 seconds*. And with a top speed of around 100mph, motorway cruising at 70mph is effortless.

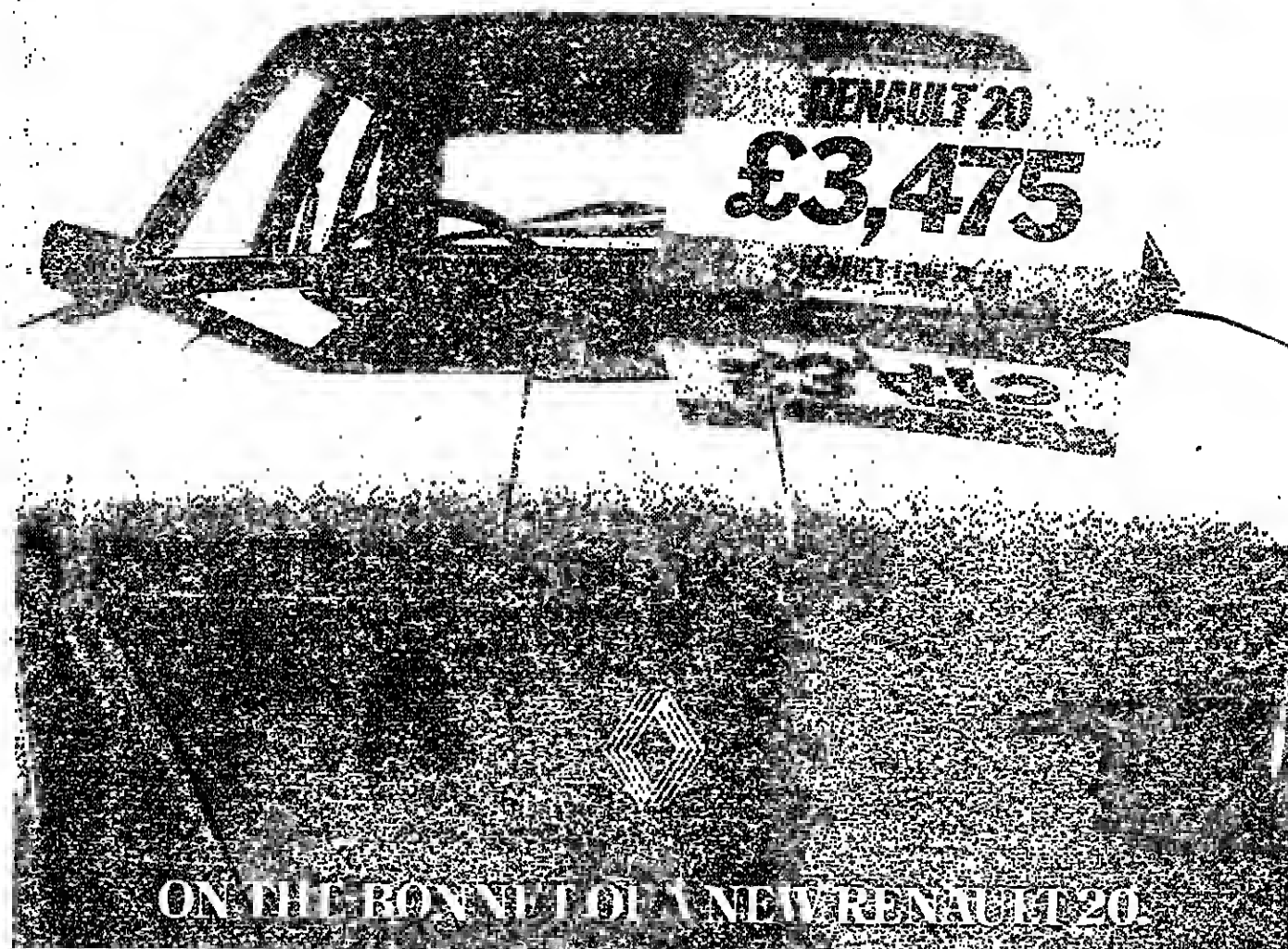
The seats, of course, are the kind that have made Renault a byword for luxury. And they fold into no less than seven different arrangements.

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RENAULT



CBI's view on Bullock attacked

BY IVOR OWEN, PARLIAMENTARY STAFF

U.K. envoy to seek deal for islanders

By John Hunt, Parliamentary Correspondent

MR. RICHARD POSNETT, former Governor of Belize, is being sent on a mission to the Pacific to work out a settlement for the islanders, the former inhabitants of the Ocean Island, who recently won a victory in the High Court against the British Government. The move was announced in the House of Commons yesterday by Lord Goronwy-Roberts, Minister of State in the Foreign Office, who said it was his firm intention to lead in taking action which will settle this outstanding question.

The case was brought to the High Court by 3,000 former inhabitants of Ocean Island seeking damages for past royalties from phosphates which had been extracted there. They were awarded damages but these were expected to be well below the £1 million which they were seeking.

Lord Goronwy-Roberts said the Government had for some time been concerned about the future welfare of the islanders in this part of the Pacific, especially the Banabans.

Water Bill revolt

By Ivor Owen

DESPITE A revolt by 17 backbench Labour MPs, including Mr. Robert Mellish (Lah, Bermuda), the former Chief Whip, the Government secured a majority of 95 on the second reading of the Water Charges Equalisation Bill in the Commons last night.

Other Labour members from London constituencies joined Mr. Mellish in protesting against the adverse effect of the Bill on consumers in the metropolis.

The Bill was given a second reading by 225 votes to 133.

In the closing speech for the Government, Mr. Alec Jones, Under-Secretary for Wales, reaffirmed the Government's intention to establish a National Water Authority. It was hoped that a White Paper outlining the Government's proposals would be published in the spring.

The 17 Labour rebels included the two tellers. There was also cross voting among Conservative and Liberal MPs.

No evidence of corruption

POLICE HAVE not been able to establish evidence of allegations of irregular dealings between advertising agencies engaged on Government campaigns and companies producing Press advertising material. Mr. Charles Morris, Minister of State for the Civil Service, said in the Commons yesterday.

Mr. Morris said there had been reports of alleged irregular dealings. These had been referred to the police who had been unable to establish evidence that corruption of the sort alleged had occurred.

"I am entirely satisfied that no Government employees could have been involved in any such irregularity," he added.

Tory Chief Whip argues case for fewer and better Bills

BY JOHN HUNT, PARLIAMENTARY CORRESPONDENT

A PLEA for a reduction in the increasing flow of legislation from successive Governments was made last night by Mr. Humphrey Atkins, the Conservative Chief Whip, in evidence to the Commons Select Committee which is considering the reform of Parliamentary procedure.

"There should be less legislation placed before Parliament in future. That is the main step that would ease our burden and make for better legislation," he declared.

He put forward three proposals which he thought would have the effect of cutting down the number of new Bills brought forward, and of improving their quality.

1—A Select Committee should be set up to consider most Bills in order to clarify the Government's intentions and to examine how well they were implemented in the legislation.

2—There should be a bigger time gap between the various stages of a Bill in order to allow longer periods for reflection and consideration.

3—Backbench MPs should have access to more information. The present system of financial assistance to provide researchers for the main Opposition parties should be extended to individual members.

Elaborating on the proposal for a Select Committee, Mr. Atkins explained that the normal Standing Committee would still consider the Bill at a later stage but would concentrate on examining policy questions. The advantage would be that the Select Committee could examine witnesses including Ministers, civil servants and outside interests. Thus, consideration would not be limited to MPs.

"I take the view that Parliament does not exist simply as a piece of machinery to translate Government wishes into legislation, as speedily as possible what the Government wants. Parliament was invented for precisely the opposite reason," he added.

Mr. Atkins strongly disagreed with some previous witnesses who want to place a time limit on Bills by stipulating the date by which they must complete their passage. He thought that such a move could prove disastrous.

"Simply because Oppositions are faced with too much legislation, they react more strongly and use greater efforts to slow down what is presented to them. If the weapon of time were removed from the Opposition, it could be very dangerous."

He took a poor view of a suggestion from one of the committee members, Mr. Michael English (Lab, Nottingham West), that Bills should not be allowed to fall if they had not completed their passage when Parliament was prorogued at the end of each year. Instead, Mr. English thought they could be automatically continued in the following session.

Mr. Atkins added: "I believe that successive Governments have loaded the House of Commons with as much legislation as it can take. So long as members accept it, they will go on doing so."

Cash limits only way to control Whitehall spending, says ex-Civil Service chief

BY RUPERT CORNWELL, LOBBY STAFF

BRITAIN'S FORMER top civil servant, Lord Armstrong of Sandherst, yesterday argued that straight cash limits were the only effective means of keeping Departmental spending in Whitehall under proper control.

Lord Armstrong, who took over in 1975 as chairman of the Midland Bank, claimed that nothing except "relentless downward pressure" on total expenditure could contain the "inherent tendency of bureaucracy to expand and to perfect itself."

His remarks came during evidence at a session of the Commons' sub-committee on Expenditure, which is investigating the follow-through to the Fulton report on ways of reforming the Civil Service.

As head of the Home Civil Service between 1968 and 1974, it was Lord Armstrong who was responsible for implementing the report. This produced among other things a Civil Service College and the creation of a Civil Service Department to take over the Treasury's former overall supervision of Whitehall.

His emphasis on cash limits reflected his strong doubts over improving the efficiency of the service in other ways, either by stepping up incentives or by making individual civil servants more directly responsible to the general public.

Turning to the Civil Service College, Lord Armstrong told the sub-committee of his disappointment at the courses it offered. The college appeared to him too academic and not sufficiently turned to the jobs that had afterwards to be done.

Sir Derek Rayner, another former civil servant, giving evidence yesterday, emphasised the vital part that improved incentives had to play in making Whitehall work better.

Sir Derek, once head of the Procurement Executive at the Defence Ministry and now managing director of Marks and Spencer, enthusiastically urged greater interchangeability between the public and private sectors. "But the present top Civil Service salaries will not attract enough talent from outside," he warned.

Windscale safety assurance

BY IVOR OWEN, PARLIAMENTARY STAFF

A FURTHER clearance for the safety precautions at the Windscale nuclear fuel plant was given by Mr. Anthony Wedgwood Benn, Energy Secretary, in the Commons yesterday.

He was questioned about the open verdict recorded at the Winchester inquest on Mr. David Berry, the 22-year-old man who died two months after finishing work at the plant.

Mr. Benn stated that the Nuclear Installations Inspector had considered the radiation exposure record of Mr. Berry, who was employed by British Nuclear Fuels from August, 1975, to September, 1976. During this period, his exposure to radiation from all sources in the course of his employment was "well within the permitted levels imposed for persons occupationally exposed on the site."

Mr. Benn pointed out that these levels are based on the recommendations of the International Commission on Radiological Protection, endorsed by the Medical Research Council, and said down in the conditions attached to the nuclear site licence.

Replying to a further question about the leakage of radioactive material from the Windscale plant, Mr. Benn told MPs that environmental monitoring results on and around the site continued to show that the leakage was causing no hazard to workers or members of the public.

Initial teacher training should be discontinued at the following institutions. Buckinghamshire College of Higher Education; Milton Keynes College; Colchester Institute of Higher and Further Education; Nonington College; Portsmouth Polytechnic; the Crawley College of the West Sussex Institute of Higher Education.

Initial teacher training should also cease at the East Sussex College of Higher Education, except for the provision at the former Chelsea College for Physical Education, which should be continued as part of Brighton Polytechnic, where total provision should be increased from 600 to 1,000 places. Christ Church College, Canterbury, should continue with a reduced provision of 500 places.

SOUTH WEST
Initial teacher training should cease at Rolle College and at the Camborne Outpost. The provision at the Gloucestershire Institute of Higher Education, and St. Mary's and St. Paul's Colleges should be amalgamated on the St. Mary's site.

WALES
Initial teacher training should cease at the Polytechnic of Wales and at West Glamorgan Institute of Higher Education.

Teacher training college closures planned

BY IVOR OWEN, PARLIAMENTARY STAFF

PROPOSALS for a major cut-back in teacher training facilities, to take account of the sharp fall in the birthrate in recent years, were outlined by Mrs. Shirley Williams, Secretary for Education and Science, in the Commons yesterday.

Between 25 and 30 teacher training establishments are expected to close, but the Minister emphasised that no final decisions have yet been taken.

She explained that the Government's strategy was to establish a basic training system capable of expansion to meet any foreseeable needs in the 1980s while not so large as to create a surplus of qualified teachers, for whom jobs could not possibly be provided.

Mrs. Williams told MPs that the advisory committee on the supply and training of teachers had agreed with her proposal that the system should be reduced to about 45,000 places. Of these, some 10,000 should be available for in-service education and training of serving teachers and the support of induction arrangements for new entrants.

Mrs. Williams outlined the main proposals as follows:

NORTHERN REGION
Teacher training in the Tyne-side area should be concentrated in Newcastle Polytechnic where places should be increased from 800 to 900. Northumberland College and St. Mary's College, Newcastle Upon Tyne, should cease to provide teacher training. Negotiations for the merger of St. Hill and St. Bede with Dutham University should be continued on the basis of a reduction in teacher training to 400 places.

YORKSHIRE AND HUMBERSIDE
The teacher education facilities at Bretton Hall College, Wakefield and Huddersfield Polytechnic should be amalgamated, the combined institution to have 550 teacher training places based largely on existing Bretton Hall provision and retaining courses in shortage subjects from both institutions. The part-time initial training at Castleford Annex should cease. Lady Mabel College, Rotherham should be merged with Sheffield City Polytechnic. Initial teacher training should cease at North Riding College and at the Doncaster Metropolitan Institute of Higher Education.

Teacher training in the three Bradford colleges should be reduced from 1,000 to 600 places, in such a way as to safeguard provision for home economics and training relevant to a multi-racial society. This would probably mean teacher training would have to cease at Bingley College.

The provision at Trinity and All Saints' Colleges should be reduced from 750 to 650 places.

NORTH WEST
Initial teacher training should be discontinued at Preston Polytechnic and at Padgate College of Higher Education. Provision for teacher training at Liverpool Polytechnic and the City of Liverpool College of Higher Education should be reduced from 1,350 to 1,000 places and their amalgamation should be considered.

The Liverpool Institute of Higher Education—Christ's and Notre Dame Colleges (Roman Catholic) and St. Katharine's College (Church of England)—should concentrate on the Woolton sites, with a reduced provision of 1,000 teacher training places.

Provision at Manchester Polytechnic and Manchester College of Higher Education should be reduced from 1,350 to 1,500 places. Provision at De La Salle Staffordshire Polytechnic will be reduced from 750 to 600 places.

Provision at Crewe and Alsager College of Higher Education should be reduced from 1,100 to 1,000 places.

WEST MIDLANDS
Teacher training should cease at North Worcestershire College but the provision at Worcester College of Higher Education should be increased from 650 to 750 places. Madeley College should amalgamate with Amrib Staffordshire Polytechnic with a reduced teacher training provision of 400 places.

The provision at Birmingham Polytechnic should be reduced to 350 teacher training places and at the West Midlands College of Higher Education should be reduced to 1,200 places.

EAST MIDLANDS
Initial training at Eaton Hall College should cease. Provision for courses in craft, design and technology should be transferred to Trent Polytechnic if suitable arrangements could be made.

EAST ANGLIA
The Peterborough Annex of Kesteven College should close. Discussions for the incorporation of Keswick Hall in the University of East Anglia should proceed on the basis of a reduced teacher training provision for 400 places.

GREAT LONDON
Teacher training should cease at the Bromley Institute of Higher Education, Ealing Institute of Higher Education, the Polytechnic of Central London and at the College of Philippa Fawcett and Furzedown.

Further consideration should be given to the organisation of teacher education in the remaining LEA institutions, which a total of 2,000 places will provide adequate provision for mature students.

All Saints College and Middlesex Polytechnic should amalgamate, with a total provision of 750 teacher training places and preservation of the college's contribution to teaching in multi-racial schools and of home economics.

The initial teacher training provision in the North-East London Polytechnic should be reduced to 100 places for post graduate and post-DipHE courses. Provision of teacher education in the Roehampton Institute of Higher Education should be reduced to 1,200 places, and at St. Mary's College, Twickenham, from 900 to 700.

Provision of teacher education at Kingston Polytechnic should be reduced to 400 places and the Guildford outpost closed.

Patents Bill 'an expensive monster'

PROPOSED NEW patent laws would mean for small inventors in the jungle of patent regulations, peers heard yesterday.

Lord Lloyd of Kilgerran (LI), president of the Institute of Patentees and Inventors, said the proposals might force the small inventor to take risks by operating outside the patent system. They would rely on secrecy, the law on confidentiality information and their ability to exploit their inventions commercially as quickly as possible.

During second reading debate on the Patents Bill, Lord Lloyd also criticised the measure for failing to cut the expense of present procedures of patent protection.

"The Bill sets up a new Patents Court as part of the High Court, puts into Statute the law on ownership of inventions made by employees and provides for awards to such employees in certain cases. It also gives effect to some international patent treaties."

Lord Lloyd said the Bill would be of great advantage to large firms and multi-national companies. It would help them in the acute competition in their international business and enable them to protect their investments in technology.

But his fundamental criticism was that the Bill would not encourage innovation by the small inventor or the small and medium-sized firm.

Moving the second reading, the Lord Chancellor, Lord Elwyn-Jones, said the Bill would be of much benefit to industry, our inventors and the nation as a whole. It would bring about a radical reform of patent law and enable the U.K. to ratify international agreements.

Employee would be eligible for rewards if they produced inventions in the course of their work. The Government believed that more should be done for such people.

The benefit obtained by the employee would be related to the benefits received by the employer from the patent.

From the Opposition front bench, Lord Lyell, said the Bill was the greatest major event in water at the Windscale plant, this field over the last 15 years. He hoped it would clarify problems arising from ever more complex research, which was causing no hazard to workers or members of the public.

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The holders of 10% 1975 due 1980 notes issued in 1975, with coupon date November 10, 1975, making the FF 100 million international issue of the COMPAGNIE DE SAINT-GOBAIN-PONT-A-MOUSSON, are hereby convened by the board of directors of said Company for a general ordinary meeting, on February 18, 1977, at 3 p.m. in one room of the Offices, 8, rue de Safia—PARIS (18ème), for the purpose of considering the following agenda:

AGENDA

- Election of noteholders representatives.
 - Designation of their powers and remuneration.
- In order to attend or to appoint another person as their proxy to attend in their place at the meeting, noteholders must, at least five days before the date fixed for the meeting, deposit their notes with the banks or establishment members of the selling group of such notes, and where forms of proxy are available for noteholders requesting the same.

The Board of Directors

How offices and service industries can qualify for substantial government grants

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New projects set up in these Areas can qualify for grants, in addition to moves by existing businesses into these Areas.

Details of the incentives are fully set out in a leaflet. To find out more about how they could apply to your company, send the coupon now, or telephone 01-211 6486 (24-hour answer service on 01-834 2026).

What are the grants?

A grant of £1,500 for each employee who is moved with his work to the Areas for Expansion (up to a total of half the jobs created in the Areas).

A grant of up to £1,500 for each new job created in many Areas.

Rent-free office accommodation for up to 7 years.

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"We intend to grow at 10% a year. If we do our homework, Midland Bank Group backs us to the hilt"

-Dr Clive Cohen, Chairman and Managing Director, Jaycee Furniture Limited.



Dr Clive Cohen, Chairman of Jaycee Furniture Ltd.

Says Dr Clive Cohen, the company's young Chairman and Managing Director: "We intend to grow at the rate of 10% a year in real terms over the next five years.

"There is a great feeling for the English style and traditional English craftsmanship in our export markets. What we really want is to become the best-known producers of this kind of furniture in Europe, the name for traditional furniture."

Export-led expansion

Expansion for Jaycee has always been export-led. Their Tudor, Jacobean and Regency

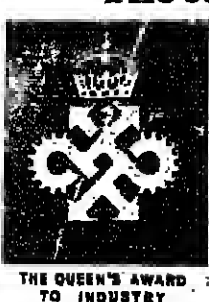


Jaycee products are made in the traditional way.



The top professional people in Jaycee's top jobs. Left to right: B. K. Matthews, Manufacturing Director; C. Cohen, Managing Director; J. M. Fritzen, Sales Director; and J. R. A. Wallis, Finance Director.

style cabinets, tables and chests are in demand throughout Europe, America, and even as far as Japan. They won a Queen's Award for Exports in 1968 and again in 1973.



Jaycee have won Queen's Awards for Exports in 1968 and 1973.

The secret behind Jaycee's growth has been their discovery of how to combine modern production methods with traditional craftsmanship without losing traditional quality. That gave them the edge in exports.

Dr Cohen, whose father started the company in 1947, explains:

"More than 60% of our production goes abroad. I think it's true to say we couldn't have grown so fast without exports.

"Promoting our goods"

"My father realised that once some of our larger European customers were sure we could supply their requirements reliably, they would put much more effort into promoting our goods.

"Midland Bank Group has helped Jaycee achieve this—assisting in improving their cash flow by setting up export financing facilities backed by ECGD."



The carver works on each panel individually, after high-speed machines turn them out roughly-shaped.

Reorganising in Europe

Jaycee recently had an opportunity to buy out the minority shareholders in their German marketing subsidiary. Midland Bank

International Division moved swiftly and the deal went through, enabling Jaycee to reorganise their German company, whose sales are now expected to increase by 40% next year.

Midland Montagu Leasing, another company in Midland Bank Group, has also played an important role in Jaycee's export drive. Says Dr Cohen: "We like to deliver our own products safely in our own fleet of vehicles; the trucks we use cost £14,000 a time. We lease most of them, so as not to tie up our capital."



Applying the gold leaf to a skivered desk top.

Help from Forward Trust

Dr Cohen and his finance director work very closely with their local Midland manager, Eric Root, at Brighton's North Street branch, discussing all their plans in detail with him.

"He can help us directly through his branch, or introduce us to specialist companies in the Midland Group. For example, Forward Trust has helped us with instalment finance.

"You can practically see the bank's eyebrows shoot up when we tell them about our next new project. But once we've convinced them of our case, they back us to the hilt."



Applying the final polish to a Regency-styled Butler's Tray.

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The companies that make up Midland Bank Group can help your company in many different ways. Their services include facilities for term loans, leasing, hire purchase, merchant banking, equity capital for growth companies, international insurance broking and advisory services, international and export finance, travel, factoring, investment management and trust services. Also for very large companies, Midland's Corporate Finance Division has a select team that can work directly with the company to make the best possible use of the wide range of Group services.

Talk to your local Midland manager—he can put you in touch with all the right people.



Midland Bank Group

Principal trading companies: Midland Bank Limited, Clydesdale Bank Limited, Clydesdale Bank Finance Corporation Limited, Clydesdale Bank Insurance Services Limited, Scottish Computer Services Limited, Northern Bank Limited, Northern Bank Development Corporation Limited, Northern Bank Executor and Trustee Company Limited, Northern Bank Finance Corporation Limited, Northern Bank Trust Corporation Limited, Midland Bank Trust Corporation Limited, Midland Bank Group Unit Trust Managers Limited, Midland Bank Finance Corporation Limited, Forward Trust Limited, Midland Montagu Leasing Limited, Griffin Factors Limited, Midland Bank Trust Corporation (Jersey) Limited, Midland Bank Trust Corporation (Guernsey) Limited, Midland Bank Insurance Services Limited, The Thomas Cook Group Limited, Thomas Cook Limited, Thomas Cook Overseas Limited, Thomas Cook Bankers Limited, Samuel Montagu & Co. Limited (Incorporating Drayton), Drayton Montagu Portfolio Management Limited, Guyerzeller Zumont Bank AG, Midland Montagu Industrial Finance Limited, Jersey International Bank of Commerce Limited, Bland Payne Holdings Limited, Bland Payne (UK) Limited, Southern Marine & Aviation Underwriters Inc., Bland Payne Australia Limited, London American Finance Corporation Limited, British Overseas Engineering & Credit Company Limited, Drake (UK) International Limited, Drake America Corporation, Export Credit Corporation.

LABOUR NEWS

The peaceful picket problem

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

THE CONTROVERSIAL issue of picketing will come before the courts today when Massey Ferguson seeks an order in the High Court for repossession of its Coventry tractor plant.

Pickets were imposed at the Banner Lane factory since before Christmas by the 1,150 strikers; another 4,500 workers are idle and production has been brought to a standstill. Lost output, 30 per cent of its for exports, already totals £28.8m.

Today's hearing is not seen by the Department of Employment as a major test case, but it will be important in providing another interpretation of the conditions under which picketing can be regarded as peaceful.

This will be the second time in less than two years that the British subsidiary of the Canadian-based conglomerate has resorted to the courts to end a strike action which has already brought accusations that hard-line North American management practices are being imported.

Mr. Phil Povey, regional officer of the Amalgamated Union of Engineering Workers, has denounced the company's action as "foreign and alien to the sort of factory spirit we try and maintain in this country."

Rather than negotiating, he claims, the company had opted for confrontation, a move which would stir up bitterness and problems for the future.

Certainly feelings are running high at the moment. Some strikers have already hanged their court summonses as a gesture of defiance.

Today's legal action is very similar to that taken by Massey

in June 1975, to resolve a five-week pay strike by its manual workers.

Pickets were alleged to have occupied the administration office block and prevented entry to the site.

The High Court judge granted a re-possession order, but it never had to be enforced. According to the company, the pickets withdrew voluntarily and returned to work to enable negotiations to begin.

Today's Massey Ferguson hearing will provide another interpretation of conditions where picketing can be regarded as peaceful.

Agreement was reached quickly with no ill-effect on production—indeed, 1976 saw the highest output for five years, the company points out.

The major difference, which has given the present dispute an awkward twist is that the workers are this time divided among themselves.

At issue is the piece rate to be paid to 135 assembly workers fixing cabs of the new 500 series of tractors. The payment fixed could set the pattern of earnings in the plant for the next few years.

The company maintains that after issuing numerous warnings to the men, they were taken off the clock on December 20. A mass meeting of all the manual workers rejected the recommendation of their senior stewards who support the 135. However, the 1,150 assembly workers unilaterally agreed to

give their backing and went on strike. Pickets were imposed on December 22.

The likely basis of Massey Ferguson's submission to the High Court is that the 379 people named in the summonses have been picketing illegally, and its application follows what the company apparently feels to be an effective occupation of the plant.

The company says that the two sets of large entry gates to the

voiced controversy and vigorous Parliamentary opposition in 1974 with its proposal to extend the right to picket.

In the consultation document preceding the Employment Protection Bill, the Government suggested that pickets should have a more effective right to communicate with the occupants of vehicles.

That provision, which could have had a bearing on the Massey Ferguson issue, was eventually dropped.

The Department of Employment last night described the Massey Ferguson hearing as one of a series of cases—though fairly rare—which would increase knowledge of how peaceful picketing should be interpreted.

Important as the ruling may be, it does not solve the problem of getting the Massey Ferguson workers back. Union officials are reluctant to commit themselves firmly as to whether or not the strikers will co-operate willingly with any decision of the High Court.

But for a settlement, someone will have to give way from the present entrenched position. The company has made it a pre-condition of any negotiations that the 135 should first return to work and demonstrate that they are prepared to put in the necessary effort to produce the target of 48 tractors an hour.

A company spokesman last night rejected the accusations about hard-line American tactics. "Our policy as a company is to conform with the customs, practices and legal requirements of any country in which we operate," he said.

Fall in local authority manpower

LOCAL authority manpower has fallen for the first time, according to quarterly figures published by the Government and local authorities yesterday.

Although the number of full-time workers increased by 2,498 in the year to September 1976, the number of part-timers employed fell by 27,414 (equivalent to 5,117 full-time jobs).

APPOINTMENTS

J. F. Insch heads Birmid Qualcast

Mr. James F. Insch, deputy chairman of BIRMID QUALCAST, has become chairman. He succeeds Mr. Robert Leigh-Pemberton who has relinquished that position prior to his appointment in April as chairman of the National Westminster Bank. Mr. Leigh-Pemberton remains a non-executive director of Birmid Qualcast.

Sir John Clark, chairman and chief executive of the Plessey Company, has accepted an invitation from the Prime Minister to serve on the REVIEW BODY ON TOP SALARIES.

Mr. Harold Glover, controller of the Stationery Office and formerly deputy master and controller of the Royal Mint, is to join INCO as its consultant on a contract from February 1, when he retires from his Government post. He will advise INCO on all matters relating to the use of nickel and cupro-nickel.

Mr. P. V. Sharma, a director and chief general manager of the Norwich Union Insurance Group, has been elected chairman of the LIFE OFFICES ASSOCIATION. He succeeds Mr. K. H. Allen. Mr. L. G. Hall has been elected deputy chairman of the Association. He is a director and general manager of the Clerical Medical and General Life Assurance Society.

Mr. J. F. James has been appointed managing director of COMPAIR CONSTRUCTION AND MINING, one of the major operating companies of the Compair Group, from March 1. He will be succeeded as managing director of Hydrovance Compressors, also a Compair company, by Mr. E. W. Jordan, who is Hydrovance's director of engineering.

Mr. J. C. Kelly has been appointed a director of THOMPSON GRAHAM (REINSURANCE BROKERS), Mr. S. T. Edwards and Mr. H. S. Hill, directors of THOMPSON GRAHAM INSURANCE SERVICES, and Mr. M. F. Baird, a director of THOMPSON GRAHAM (UNDERWRITING MANAGEMENT) from February 1.

Mr. Michael Price has been elected chairman of the BRITISH INCOMING TOUR OPERATORS ASSOCIATION. Mr. Patrick Edgington, Mr. Harry Kott, Mr. Verity George, Mr. Laurie Taylor-Hinds, Mr. Eric Baine, and Mr. Martin Drew have been elected to the executive committee.

RICHARDSON HICK AND PARTNERS has been formed in association with Armour Hick Parker to provide a full insurance broking service on all classes of insurance and various veterans' and vintage motor insurance schemes. Directors of the new company are Mr. R. Michael Hick, Mr. R. L. Richardson, Mr. Sidney G. Richardson and Mr. D. S. Whitehouse.

Mr. Keith Trickett has been appointed managing director of

4-1 vote for Halewood strike

BY OUR LABOUR CORRESPONDENT

PRODUCTION at Ford Motor's Halewood factory on Merseyside is expected to grind to a halt again today as a result of a unofficial strike by 5,000 workers in the metal-stamping and body plants.

A mass meeting in the Liverpool Echo Building yesterday decided by a majority of four to one to accept the shop stewards' recommendation to strike until there is an improved relationship with management.

Shop stewards maintain that relationships with management have reached an all-time low. There were several disputes towards the end of last week. The workers are particularly concerned about the possibility of redundancies due to introduction of the new Fiesta and increased prices of the Halewood-assembled Escort.

Another grievance, claim the stewards, is that they are prevented from representing workers like the welder whose dismissal for alleged vandalism sparked off a dispute last week.

Mr. Moss Evans, Transport and General Workers' Union national organiser and chairman of the Ford union negotiators, has been

asked to intervene. He spent six hours at the plant last week trying to restore peace, and offered to return if required.

A Ford spokesman last night denied the stewards' allegations about representation procedures and possible redundancies. The company had no intention of eroding the unions' rights, and there were no fears of redundancies.

Ford could sell as many cars as it could produce and the threat came not from the new Fiesta but from sudden stoppages such as the present one, he said.

A total stoppage at Halewood would prevent production of some 800 Escorts, worth about £1.8m, in retail terms, he added.

Mr. David J. Barter has been appointed managing director of the CRODEX COMPANY. He was joint managing and production director of Rush and Tompkins Ltd.

Mr. Patrick Smith, chairman of Turner and Newall, has been elected vice-chairman of the BRITISH ROAD FEDERATION.

Mr. B. R. Bandy, managing director of Nuffield Blackstone, has been appointed chairman of the BRITISH INTERNAL COMBUSTION ENGINE MANUFACTURERS' ASSOCIATION. Mr. J. Moore, commercial director of Ruston Diesels has been made vice-chairman of the association.

Mr. David Harley, managing director of Visionbire, has been appointed chairman of the council of the NATIONAL TELEVISION RENTAL ASSOCIATION for 1977. Mr. Sidney Parker, who remains a member of the council, Mr. Bryan Quiller, managing director of Granada TV Rentals, has been made deputy chairman of the association.

Mr. D. A. Blaikie has been appointed a director of the BRITISH AVIATION INSURANCE COMPANY, on the retirement from the Board of Mr. A. Macdonald.

Mr. James J. Greene, who joined the Board of AMERICAN EXPRESS INTERNATIONAL BANKING CORPORATION, and been elected executive vice-president. He was previously with Manufacturers Hanover Trust.

Mr. Chubb and Son has formed CHUBB ELECTRONICS into which it is proposed to merge Chubb Alarms, Chubb Integrated Systems, ICC Machines, and Cosec. Car Registrars. Initial appointments to the Board of the new company are Mr. W. E. Russell, chairman, Mr. D. N. Briggs, managing director, Mr. J. Rankin, deputy managing director, and Mr. D. J. Potter, financial director. Pending the full implementation of the merger all the companies involved will continue to trade in their own name and right. Mr. D. J. Potter is to succeed as financial director of Chubb and Son and will be succeeded by Mr. J. F. McArthur. Mr. W. G. Banochie becomes managing director of Chubb and Son's Lock and Safe in place of Mr. McArthur.

Mr. John Fawthrop, Mr. Charles Irby and Mr. George Maclean have been appointed assistant directors of BARRING SANWA MULTINATIONAL, Hong Kong. Mr. Fawthrop and Mr. Maclean are with the banking department, where Mr. Irby was previously a manager. Mr. Irby was also a manager, and at the beginning of the year assumed responsibility for the corporate finance department.

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Further efforts to solve delivery drivers' strike

BY OUR MIDLANDS CORRESPONDENT

NEW EFFORTS to solve the strike by the 270 James Car delivery drivers before it causes widespread disruption at Leyland's Midlands car plants, were being made last night.

Pickets are preventing the despatch of finished vehicles from Leyland Cars plants at Longbridge and Solihull. Models held up include the award-winning Rover 3500, the Mini, Allegre and Triumph range of cars.

The drivers are protesting at Leyland's decision to bring in extra car delivery companies at Solihull where James Car handles 85 per cent of the withdrawals.

Proposals for a return to work drawn up in five hours of talks between James Car and senior Leyland management, including managing director Mr. Derek

Whittaker, have been rejected by the men.

Mr. Doug Fairbairn, West Midlands divisional officer of the Transport and General Workers' Union, said last night that the drivers were urging Leyland to withdraw its proposals.

While the men would agree to other companies coming in, they wanted the award of vehicles that James Car would handle, in order to ensure job security.

The men also required an assurance that drivers from other companies would be paid equally—James drivers receive about 25 per cent more than men from other delivery companies. Mr. Fairbairn said.

James Car has forwarded the men's demands to Leyland and is pressing for a meeting to discuss the issues.

BR suspends non-unionist reinstated by tribunal

BY OUR LABOUR STAFF

BRITISH RAIL yesterday suspended a non-union railwayman who was recently reinstated in his job by an industrial tribunal, because other workers threatened to strike.

Mr. Dennis Goodbody, who works at Newton Abbot, was dismissed under BR's closed shop agreement in October after refusing on religious grounds to join the National Union of Railwaymen. He then won an industrial tribunal ruling that he should get his job back, but NUR members between Taunton and Penzance said yesterday that they would strike if he returned to work.

Newsmen continue strike

A MANAGEMENT formula to end a seven-week-old strike by 70 journalists employed by Northamptonshire Newspapers, Kettering, was rejected yesterday.

A spokesman for the journalists said that they had decided by a five to one majority to continue the strike, and also called for further and immediate talks through the Advisory Conciliation and Arbitration Service.

The journalists' chapel (office branches) are to ask the National Union of Journalists executive council to increase

strike pay from £25 a week to £30.

The dispute is over a claim for increased expenses, premium time off, maternity and paternity leave, and personal accident insurance cover.

At talks last Thursday, the management offered to negotiate a one-year agreement instead of a three-year agreement and discuss outstanding fringe benefits if there was an immediate return to work with no further sanctions. But the journalists regard the offer merely as a return to the status quo.

Union threatens Hull MPs

A UNION official threatened yesterday to urge his 8,000 members to stop supporting the three Labour MPs for Hull unless they made a greater effort to get more work for North Humberside.

Mr. Walter Joester, Hull district secretary of the Amalgamated Union of Engineering Workers, said he had written to the MPs that unless they did more work for the Government to help North Humberside, the union would withdraw its support, financially within the constituencies and on the ballot paper.

Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

GRAPHICS

Master drawings made erasable

SAVINGS OF up to 50 per cent of drawing office time in certain operations are being achieved by a new photo-drafting process called by Photo Circuits of Barton-Leaves, Leeds.

Master drawings can be reproduced from microfilm on moisture-erasable translucent film. The material is Du Pont "Crovet" reprographic film.

Previously, a microfilm drawing could only be enlarged to paper or photographic film, both of which are unsatisfactory as translucent media for subsequent revision and alteration. The drawing therefore had to be retraced on a suitable drafting surface, with all the attendant risks of error and the necessity for re-checking, usually by the more experienced and highly paid draughtsmen. For a detailed engineering drawing all this might take three days of a draughtsman's time, and cost perhaps £125.

Photo Circuits provides a moisture-erasable master on the good drafting surface of the dimensionally stable "Crovet" film in a fraction of the time for about an eighth of the cost.

Print remains permanent and does not discolour or deteriorate with age. Furthermore, Photo Circuits can provide, as an intermediate stage, an A4 print of any drawing for use in manuals, handbooks, etc.

Pressures to obtain quick reproduction and speedy return of original drawings is a constant source of concern for drafting and reproduction supervisors. Tray processing and air drying are too slow.

Sometimes, diazo or electrostatic reproductions are used for the sake of fast service, but at a sacrifice of quality. The Crovet method provides an alterable master in under a minute.

Crovet engineering reproduction and drafting films, processing chemicals and the processor are produced by the Photo Products Department of the Du Pont Company at Haxwood Road, St. Neots, Huntingdonshire PE19 1QS. (Huntingdon 75341). Photo Circuits, Barton Industrial Estate, Faldor Road, Barton-le-Cley, Bedfordshire (Luton 81581).

PERIPHERALS

Telex disc market widened

DEVELOPMENT by Telex of a controller which will allow it to attach its disc sub-systems to the integrated controllers on IBM 370 central processors should significantly widen its disc market.

The new controller, which Telex is calling the 6333 (equivalent to the IBM 3333), was developed at the Telex Centre in Feltham and is being manufactured at the Telex plant in Tulsa, Oklahoma. It will be sold by Telex to the United States and is probably the first product developed in Europe for the U.S. plug-compatible market. The Telex 6333 controller also has a "dual porting" option for the attachment of a pool of drives.

This dual-porting feature allows two controllers to share access to a pool of drives, instead of individually controlling a string of drives. The advantage is that if a controller goes down, the drives can be switched to the other controller. Dynamic dual porting, available with Telex's free-standing controllers, allows drives to be accessed automatically through whichever controller is available.

Telex Computer Products, 213 Oxford Street, London W1R 1AH. 01-734 9131.

METALWORKING

Projector drill at low cost

LOW COST optical drilling equipment of a new design is easy to use. The machine is electrically operated and does not require any special tooling or most other projector drilling machines. Attention has been given to providing a large screen with high intensity illumination and clear definition thus reducing operator eye strain. The projection system uses a lens of long focal length, to allow ample clearance over the drilling table, in conjunction with two high intensity fan cooled lamps to provide a bright image on the 5½ inches diameter screen.

The high speed (17,000-19,000 rpm) drilling head is foot-operated, through a counter-balanced linkage for maximum sensitivity, leaving the operator free to position the work.

A safety guard is fitted around the chuck and a lamp is provided at the drilling spindle for ease of drill change. When this lamp is switched on the drill motor cannot be started.

This Circutape drill brings precision, optical drilling within the reach of development departments and short run producers.

COMPUTING

Solicitors' automated accounting

OYEZ, the Solicitors Law Stationery Society, estimates that the U.K. market for the new Logabax solicitors' accounting system, the LX2010, which it is marketing, is between 100 and 200 systems a year initially.

This is at a price of £4,850 plus VAT, business that would bring in between £2m and £3m in the first year. The price includes standard applications programs for accounting, payroll, and time costing, as well as staff training and machine installation.

Logabax expects to launch a general version on the U.K. market later this year, working through distributors. The system in its basic form will sell at around £4,000, and the latter company in turn expects to do about a £1m. worth of business in the U.K. in the first year. The system was first launched in France last September—the company has so far delivered between 300 and 400 and expects to produce a further 2,000 in the year.

LX2010 follows the current trend towards operations through a subset of plain language, and is intended to be used by people without any computing skills.

The equipment is operated through a Cobol-type language called LOG, which allows the user to program using a basic set of 12 instructions, easy to learn and obviating prior computing skills.

The system itself is a standard unit comprising keyboard, printer and computing module. Programs are cartridge-loaded. The keyboard has three specialised sections, alpha-numeric, numeric, and function, working

rotated for Mitre cuts up to 45 deg. without disturbing the workpiece. Capable of being fast— it cuts a 50 by 75mm. mild steel bar in six seconds. Standard equipment includes a recirculating coolant system, length stop and two-piece automatic sawblade guard linked to the movement of the cutting head.

Called the Mini Brown, the machine is supplied with a wooden carrying case which can be converted into a rigid pedestal for the machine if no bench is available.

Marketing in the U.K. is by the Addison Tool Company, Westfields Road, London W3 9RE. (01-993 0141).

A digital display allows for visual verification of the data entered.

Oyez equipment is programmed to handle values of outstanding bills, work in progress, and disbursements not yet billed. There is provision for income analysis from up to 99 fee earners and 10 departments, as well as 7 VAT categories, and a computer audit trail is possible.

More from Oyez on POB 55, 237 Long Lane, London SE1 4PU. 01-407 8055.

ICL passes Swift test

ICL HAS been prompt to react to the news of delays to the Swift international banking network and has disclosed that the computer equipment and associated software developed by ICL to provide banks with the link to the network has passed its acceptance tests for "live" processing of financial transactions and messages.

This seal of approval was given at the beginning of December by the Society for World Interbank Financial Telecommunications (SWIFT), a non-profit service organisation set up to develop and operate an international, computerised network for the transfer of financial messages.

ICL (through its Singer acquisition) has been selected by Swift as a primary supplier of terminal systems for use by member-banks throughout the world. The ICL Swift Interface Device (SID) is based on the 1500 series of transaction terminals, 5,000 of which have been sold in world markets.

As a result of this decision, the 15 banks in Belgium, Germany, Switzerland and the U.K. which have already installed ICL interface devices will be ready to use the new network when "live" working begins in the near future.

PACKAGING

Strappers made in Switzerland

DESIGNED AND built in Switzerland, a range of strapping machines is to be marketed in the U.K. by F. A. Power, Adderley Road, Salford, Birmingham (021-327 3601), a GKN Group company. They will be sold in conjunction with the company's polypropylene strapping material, Polyband.

Called the Powerstrapper range, there are three types of machine, each available in a choice of models. These are a fully automatic, semi-automatic, and a table-top model (a derivative of the semi-automatic).

All use the same electric heat sealing method, which is stated to produce a joint with 90 per cent of the strength of the strap. Many of the machines' components are interchangeable, and include a new band tension control system.

Gears have been eliminated from the operating mechanism, being replaced with toothed or V-belts, to reduce lubrication and maintenance requirements. Maintenance is further reduced by the use of corrosion resistant materials for the working parts. Each machine is constructed on a modular basis which makes possible an almost infinite choice of working heights and configurations.

INSTRUMENTS

Lower cost signal recorder

ANALOGUE instrumentation cassette recorder DA1432A put on the market by Data Acquisition is intended to provide an inexpensive alternative to the larger and more expensive reel-to-reel machines.

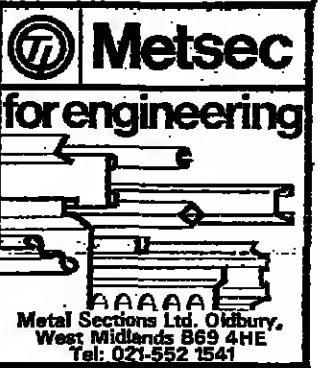
It provides four recording channels each of which can be operated in either direct or FM mode; the former is suitable for signals in the frequency range 50 Hz to 8 kHz while the FM mode caters for signals from DC up to 1.25 kHz.

Each channel has switched record sensitivity covering 0.1 to 10 volts together with three carrier filter cut-off frequencies on FM. A choice of FM carrier frequencies is provided corresponding to the IIRG wide band intermediate band operation.

Good monitoring facilities allow checking of both record and playback signal levels and there is an electronic "tape consumed" indicator. There are facilities for voice annotation between data blocks and for low frequency noise compensation.

The recorders weigh 7 kg and measure 290 by 165 by 250 mm. More from Brookfield House, Hope Carr, Stockport, Cheshire (061-477 3568).

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A Telex engineer at the company's U.K. centre working on the controller.

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FINANCIAL TIMES SURVEY

Tuesday January 25 1977

AUSTRIA

Chinks
in
the
armour

By W. L. Luetkens

ISLE OF THE BLESSED: that is the term Austrian journalists like to apply to their country. Hope or irony? At bit of both, with a measure of pride mixed in.

The causes for pride are by now well known. The country has weathered the world recession better than most so far; prosperity is widespread and obvious; there is a far-reaching consensus between both sides of industry and the major political parties — however worthy their conflicts are before the ultimate settlement. All these things have aroused much envy in the world.

Yet a note of irony has been repeated in the news: the Isle of the Blessed, number of things have been going wrong which while by no means disastrous in themselves have made it less certain that Austria is quite as well run as once thought.

During the summer one of Vienna's bridges collapsed into the Danube; the routine inspections had apparently become rather too much a matter of routine. Another has had to be closed because it was too close to the Danube; the routine inspections had apparently become rather too much a matter of routine. Another has had to be closed because it was too close to the Danube; the routine inspections had apparently become rather too much a matter of routine.

associated with the Viennese municipality lost a lot of money without securing the orders from Arab countries which the expenditure was supposed to facilitate. The courts absolved the management of anything heinous, but were scathing about its competence.

Since Vienna is a Socialist stronghold harbouring about a fifth of the Austrian population all of this was grist to the Opposition's mills. When the Defence Minister, Brigadier Karl Luetgendorf, a non-party man serving in Dr. Bruno Kreisky's Socialist Government, appeared to question certain provisions of the State Treaty with the World War II Allies, which committed Austria to neutral status, the critics had another field day. Brigadier Luetgendorf appeared to be asking for air defence rockets. Dr. Kreisky put him in his place, secure in the knowledge that the State Treaty is not a matter of party controversy — and that a realistically unheroic assessment of the country's military potential is general among the population.

Wagged

Tongues probably wagged far more when a bright journalist discovered that the Government had spent the equivalent of about £300 on a huge birthday cake for a reverent orchestral conductor, Dr. Kreisky grumbled about the Press, the Press grumbled about him, a People's Party member of Parliament went as far as invoking Watergate (to the secret annoyance of his leaders), and the storm blew over. So in all probability will the fest.

But there is little doubt that the prestige of the Government has suffered. Public opinion polls about party followings are

not usually published in Austria, but those taken for the parties show that the Socialists, after preserving their absolute majority in the election of 1975 have slipped back into a position of relative majority only. Since the next election is not due before 1979 that need not mean very much, especially since the personal prestige of the top leaders seems to have stood up well. Herr Leopold Graz, the Mayor of Vienna, has hardly suffered in popularity polls despite the obvious deficiencies of the administration under him.

There are few who doubt that Dr. Kreisky — by now a sort of grandfather figure — will once again lead the Socialists in the 1979 campaign, and that he will once more prove a hard man to beat. By then, however, Dr. Josef Taus, who was chosen to lead the People's Party in 1975 when his predecessor died a few months before the campaign began, will have had a better chance to make his mark with the electorate.

There is something rather typical of Austria about the Kreisky-Taus confrontation. As Herr Taus himself likes to point out, he, the (relatively) poor man's son, leads the party of

Helped by the consensus between labour and industry the Austrian Government has so far contrived to spend its way out of the world recession. But a high price has been paid in the form of budget and external deficits.

business (which largely means small business in Austria), whereas the Socialist Dr. Kreisky is the son of a well-situated bourgeois family. Of course that is a coincidence, yet it is one that may help to an understanding of why the Austrians have decided to remain on the road of consensus. They have a mixed economy, of which Dr. Kreisky himself says that he cannot see any cause at present for major redistributive measures, and the country is small enough for all those who matter to know each other intimately.

Shrewd

That is true in particular of the extremely shrewd top representatives of the two sides of industry, Herr Anton Benya, head of the trade union federation (OeGB), and Herr Rudolf Sallinger, president of the chamber of commerce organisation, of which all businesses have to be members. Many have been the occasions when wage negotiations or rows about proposed price increases appeared to have rent asunder the vaunted system of social partnership, until the two men

disappeared for a tête-à-tête and returned as *dei ex machina* with an acceptable solution.

Hence it is a very real problem — whether social partnership, being a matter of personalities rather than institutions, will survive men like Herr Benya and Herr Sallinger. There are arguments to support either view, but there is no denying that Austria has travelled a long way since 1934 when social tensions led to civil war. The present generation will prove hard to replace, but their successors will have grown up under conditions where consensus has been the natural state of affairs.

In the present state of the Benya-Sallinger exchanges, the trade union leader has announced that he hopes for real wage increases of 1-2 per cent. this year — and in the interests of international competitiveness no more. He expressly includes industries like construction or the public service which do not compete on foreign markets, because of the indirect effects that their wage rises have elsewhere.

That is a wage policy that Austrian industry should be able to live with. None the

less, over the years wage costs have crept up to levels uncomfortably high, given that Austrian productivity is inevitably below that of the Germans; the smallness of the market and the consequent absence of economies of scale sees to that. During the recession that problem has been exacerbated by a deliberate policy of holding on to men who really were redundant. Not only the State-owned industries pursued this course: many private employers did the same, from loyalty or because they expected a better economic climate shortly.

Expansion

The indications during the second half of 1976 did in fact point in that direction, though industry is rather less optimistic than are the economists, and though the situation in December looked a little less rosy than in the autumn. The best guess at the moment is that expansion will continue, but that it is unlikely to assume boom-like proportions. The budget for 1977 is no longer expansive and one can probably exclude the possibility that the Government will decide to release the contin-

gency budget drawn up in case the economy requires another boost.

How well things go will depend largely upon factors beyond Austria's control: whether the U.S. economy takes off again, and that of the Germans; and whether Italy and Britain solve their problems. Foreign influences on Austrian export markets are too strong for there to be any such thing as an autonomous Austrian economic policy. In this context special importance attaches to the almost complete disappearance of growth of revenue from foreign tourists. It is small consolation that some of Austria's competitors have been hit rather more badly.

The tourist trade is not only an important factor in the Austrian balance of payments: it has also proved a stimulus to much other economic activity, construction being only one, albeit the most obvious, example. Structural problems may therefore arise, as from the erosion of the international advantage that Austria used to enjoy from low wage costs. Political complications could arise because an unusually large number of school leavers will be looking for work in the next five years.

Yet an inflation rate of about 7½ per cent. last year, expected to fall to 6½ per cent. in 1977, together with an unemployment ratio below 2 per cent., do justify the economic policy so far pursued. The Government claims that its deficit spending in 1975 and 1976 saved 14,000 jobs and added 1.5 per cent. to GNP in each year. That looks like a classic case of spending one's way out of trouble.

By 1978 it should be possible to tell whether the price was worth paying, for it has been a heavy one. The Government debt

BASIC STATISTICS

| | |
|---------------------------------|-----------------|
| Area | 32,375 sq miles |
| Population | 7.5 m. |
| GNP (1975) | Sch. 654 bn. |
| Per capita | Sch. 87,021 |
| Trade (1975) | |
| Imports | Sch. 163 bn. |
| Exports | Sch. 131 bn. |
| Imports from U.K. | £164 m. |
| Exports to U.K. | £204 m. |
| Trade (1976 to end Nov.) | |
| Imports | Sch. 187 bn. |
| Exports | Sch. 137 bn. |
| Imports from U.K. | £191 m. |
| Exports to U.K. | £210 m. |
| Currency: Schilling = Sch.29.15 | |

has gone from Sch.61bn. (10 per cent. of GNP) at the end of 1974 to Sch.134bn. (19 per cent.) and is expected to rise to Sch.166bn. (21 per cent.) this year: the current account (including leads and lags) had a deficit of Sch.12bn. last year against Sch.400m. in 1975, though this year it may improve to about Sch.10bn.

Financial needs have caused the Finance Minister, Dr. Hannes Androsch, to increase a number of taxes and dues which will add about 0.3 per cent. to a tax quota that has for some time been about 23 per cent. of GNP — but will no doubt take away rather more from his party's popular ratings for the time being. But confronted with the argument that he may have spent his way into trouble rather than out of it if success is found in 1978 to have eluded him, Dr. Androsch says even in that case "We simply had to try."

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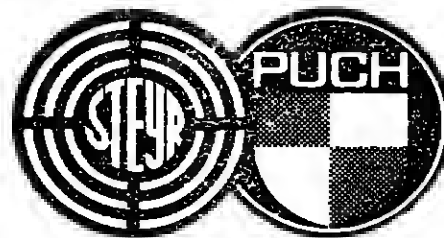
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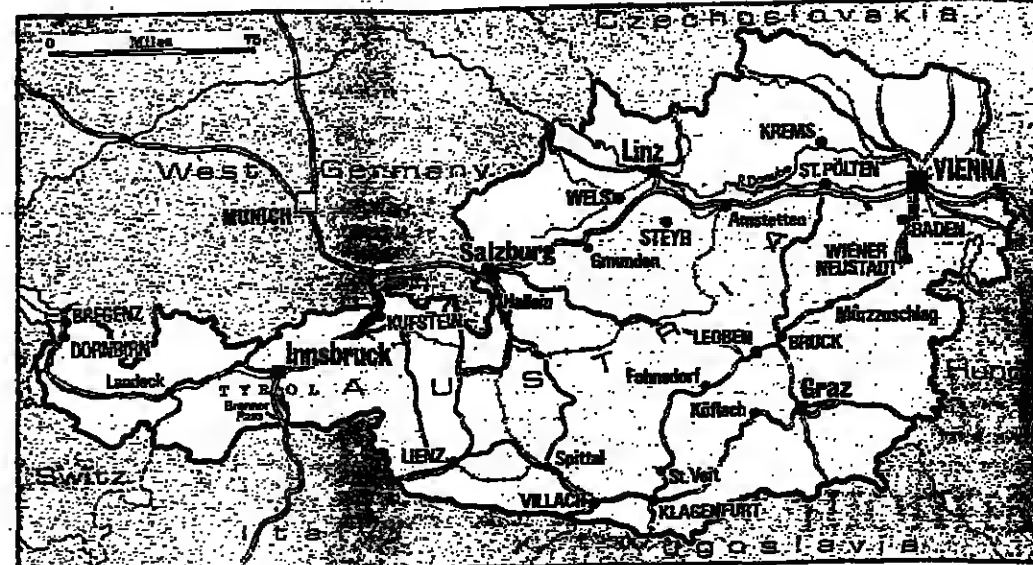
The strength of the Schilling

IN THE BAD old deflationary days between the wars the Austrian Schilling currency of a poor, strife-torn country earned the nickname of "dollar of the Alps" for its hardness. Now, some 50 years later, the Schilling again rates among the hardest of currencies, but one really cannot speak of deflation in what has become a prosperous country of a far-reaching political and social consensus. During the four years from the end of 1972 to the end of last year the Schilling increased in value by almost 28 per cent—so that nobody would dream of likening it to the U.S. currency this time round. Even the powerful D-Mark must yield to little Austria: the Schilling gained 1.8 per cent against it in those four years since the Smithsonian Agreement. Of the major currencies only the Swiss franc did better, with a reval-

ation effect of 13 per cent against the Austrians.

For much of those four years, the Austrian National Bank managed the exchange rate in accordance with a complicated formula intended to maintain a reasonable relationship with a basket of currencies put together to take account of Austrian trade relationships. But of late the Schilling has more or less kept pace with the Germans who, after all, supply 40 per cent of Austrian imports, take 20 per cent of Austrian exports, and provide four in five of the tourists whose spending is an important steady item in the current external account.

Towards the end of last year the idea gained ground that in view of the current account deficit into which payments had fallen, the National Bank would allow the Schilling to decline from an exchange rate of around Sch.7.10 to the D-Mark to a rate of Sch.7.30. The speculation went awry; for the foreseeable future the two currencies are likely to remain in fairly close harness.



PERFORMANCE AND PROSPECTS

| | (Percentage change from previous year) | 1975 | 1976 | 1977 |
|-------------------------------|--|--------|--------|--------|
| Private consumption (real) | + 2.5 | + 3.5 | + 3.5 | + 3.5 |
| Public consumption (real) | + 3.0 | + 2.5 | + 2.5 | + 2.5 |
| Gross investment (real) | - 5.9 | + 4.5 | + 6.5 | + 6.5 |
| Including: | | | | |
| Plant and equipment | - 8.0 | + 7.5 | + 10.5 | + 10.5 |
| Buildings | - 4.4 | + 2.0 | + 4.0 | + 4.0 |
| GNP (real) | - 2.0 | + 4.5 | + 4.0 | + 4.0 |
| Merchandise exports (nominal) | - 1.9 | + 15.5 | + 15.5 | + 15.5 |
| Merchandise imports (nominal) | - 2.9 | + 23.5 | + 23.5 | + 23.5 |
| Consumer prices | + 8.4 | + 7.25 | + 6.25 | + 6.25 |
| Current account (Sch.bn.) | - 0.4 | - 12.0 | - 10.4 | - 10.4 |
| External payments (Sch.bn.) | + 17.8 | - 9.0 | + 5.6 | + 5.6 |

* Including leaders and laggards. Source: Girozentrale.

Intertwining

The reasons for this policy are not hard to seek. Structurally, there are the close ties of trade and tourism and the general intertwining of the two economies (of which the Austrian, of course, is much the smaller). German cars and consumer durables have dominant market shares in Austria.

But in addition there is a deliberate policy decision of the Austrian Socialist Government to maintain the hardness of the Schilling as a steady influence upon the domestic price level. How successful it has been is largely a matter of viewpoint. Austria has not banished inflation: The Consumer Price Index rose by 8.4 per cent in 1975 (compared with 3.9 per cent in West Germany); 7.1 per cent in 1976 (4.4 per cent in Germany); and according to an OECD forecast will rise by 6.1 per cent this year (4 per cent in Germany).

By international standards that is not a bad record, even though of late the inflation rate has also exceeded that in the U.S. It looks even better when one recalls that the unemployment ratio has been kept below 2 per cent, seasonally adjusted, admittedly helped by a limited repatriation of migrant labour and by fairly widespread short-time working.

Part of the price has clearly been paid by industry in the form of sharply narrowed margins in export markets. The OECD estimates that average values of Austrian exports in 1976 did not rise at all last year though an increase of 4.1 per cent is forecast for 1977. The 1976 figure may err on the pessimistic side, but the overall

pattern is probably correct.

The tourist trade equally has felt the impact of prices rising in terms of D-Marks, and of the international recession. During January-August, 1976, the number of German tourists was lower by 5 per cent than in the first eight months of the year before, and the overall number of foreign tourists was down by 2.5 per cent. But the overall income from tourism still showed a slight increase, keeping pace with the increased expenditure of Austrians travelling abroad.

Yet the fact remains that tourism cannot balance the current account, which has always included a structural deficit on merchandise trade. The last current account surplus was registered in 1969. For January-October, 1976 the current deficit was Sch.19bn. (as against Sch.3bn. for the same period in 1975). The increase was almost entirely due to a deterioration of the trade account, though in assessing it one must bear in mind that a surplus shown in the books under "Net Errors and Omissions" must be credited largely to current account type transactions.

During that 10-month period the Austrian external reserves (including the external assets of credit institutions) were run down by Sch.14bn. to Sch.48bn.

(composed of net external assets of Sch.71bn. with the National Bank and net external liabilities of Sch.23bn. of the credit institutions). To that extent the Schilling has been "propped up" to maintain a strong exchange rate.

The pattern is expected to change this year, or rather to revert to a more normal state by considerably increased capital imports, though only a slight improvement of the current account is expected. A projection published by Girozentrale (which slightly revises the earlier work done by the Austrian Economic Research Institute) forecasts a current account deficit (including those Errors and Omissions) of Sch.10.4bn. this year (Sch.12bn. in 1976), but an overall surplus of Sch.6bn. in other words, the reserves will no longer have to take the strain.

Long-term capital imports are going to be needed as usual by the electricity generating industry and for purposes of export finance, and this year the Federal Government is expected to return to the markets to help cover its budget deficit. Foreign borrowing for that purpose is expected to reach a maximum of Sch.6bn. this year.

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Thus the immediate outlook is for a continuing strength of the Schilling, though in the longer term there are reasons for concern if the predicted revival of world export demand does not occur with the hope for rigour. Debt service will become an increasingly important element in the balance of payments, and external payments for interest and other yields from investments have increased from Sch.2bn. to Sch.3.5bn. in the last three years (November 1973-October, 1974). November 1973-October, 1974 and the trend is going to accelerate.

The Economic Research Institute in Vienna has advised the Government to find means to channel resources into activities with a low import content, in order to avoid exchange rate manipulation and the inflationary effect of weakening the Schilling.

Yet the strength of the Schilling does also have its negative side: from 1970 to 1976 Austrian unit labour costs, expressed in U.S. dollars, increased by 134 per cent, of which a little over half (72 per cent) was due to the rising Schilling rate.

One must add that the process has been arrested: in 1976 unit labour costs expressed in U.S. dollars actually declined by 1.6 per cent (despite an increase of 7.6 per cent, expressed in Austrian money). Yet the position reached has caused some heart searching about how much longer Austria can afford to pursue its present exchange rate policy. Girozentrale, in a recent commentary, noted that Austria was no longer a country of low wage levels and would have to change its policy unless a advantage could be regained in unit labour costs. Given the awareness of this problem in trade union leadership, it is largely dependent upon other countries, especially the German, whether that success can be achieved.

W. L. Luetken

The payments balance under pressure

EXPORTS bounded ahead by an enviable 16 per cent as Austria's foreign trade made a smart recovery last year from the recession into which it had declined in 1975. Unfortunately, however, and not entirely typically by Austrian standards, imports grew even more rapidly—by 26 per cent.

That pattern greatly increased the visible trade deficit which for long has been a structural feature of the Austrian economy. In the past it used not to give too much cause for concern, since ever-rising earnings of the tourist trade helped to bridge the gap. But tourist spending may have reached a peak and there are certain other features of the trade pattern which make it probable that the current account deficit will continue for some time.

Inventories

It is estimated that about Sch.7bn. (about £240m.) of the increase of imports from Sch.146bn. in January-November, 1975, to Sch.197bn. in the first 11 months of last year was accounted for by the normal build-up of inventories at a time of economic recovery. Beyond that, especially high imports of energy and of motor vehicles were sucked in, and it may turn out that they were not altogether abnormal.

Austria is almost entirely dependent on imports for its supply of cars, and the rapid increase in new registrations from

185,000 in 1975 to about 220,000 last year was fully reflected in the trade balance. The boom was encouraged by the fact that heavy repayments of contractual savings were falling due, but in fact it appears to be a return to pre-crisis normality: registrations reached 222,000 in 1972, the last full calendar year before the crisis broke out.

In the case of energy—apart from some special factors such as low snow falls in 1975-76 which reduced the flow of water through the hydro-electric stations—there was some bunching of oil purchases late in 1976 in anticipation of an OPEC price rise. That, however, is not a once and for all affair, since Austria, having joined the International Energy Authority, is committed to stockpiling oil this spring.

Besides these longer-term considerations, there is also a cyclical reason for caution in considering the development of Austrian foreign trade this year. After a very good start in 1976, export demand may be entering a phase where the hesitation in the West German and some other economies will have its effect upon demand for Austrian goods.

The impact of what happens in Germany is a multiple one. First, the Germans take about 20 per cent of Austrian exports. In addition, many German and Austrian engineering products compete directly with each other so that if the Germans are hungry for orders, the Austrians will suffer pressure

on their prices. Finally, many of the smaller engineering concerns that play a surprisingly large role in the country's exports supply components to Germany for further export.

The trade outlook has given rise to some discussion in Vienna. The imposition of a special car tax has been mooted, but for political reasons stands no chance, unless things really do get bad, which nobody really expects. In any case, with exports accounting for 26 per cent of GNP, not to mention the country's obligations to EFTA and the EEC, nobody in Vienna is particularly anxious to tamper with imports except in the most indirect way.

Instead, Dr. Hannes Androsch, the Finance Minister, has suggested raising the ceiling for export credits from Sch.40bn. to Sch.60bn., as well as providing better facilities for export credit and export credit guarantees. In addition he is proposing an increased remission of corporate income tax in respect of export earnings and may propose similar concessions in the case of wealth tax. Overall, however, his suggestions may not outweigh the recent increase of that tax from 0.78 to 1 per cent. Exporters, together with industry at large, may on the other hand hope for some relative relief on the wages front. The engineering union is about to embark on wage negotiations, to be given any relief by an exchange rate.

real wage increase of less than 2 per cent. Assuming an inflation rate this year of 6 to 7 per cent, that would probably mean that wages in this export supply industry will, if anything, lag behind the in West Germany.

Outstripped

That is a help which Austrian employers badly need, for their labour costs have been rising steeply of late, including fringe benefits, which play an unusually big role in Austria, they have outstripped Britain. Fortunately for Austria, it still maintains a respectable pace behind German costs. Does Austrian productivity lie that in the Federal Republic? Converting at prevailing change rates and taking wage and fringe costs in Austria to 100, the statisticians have arrived at an index figure of 134 for Germany, and one of 72 for Britain.

During the 1970s Austrian costs have been rising 7.6 per cent annually. Converted into U.S. dollars, and boosted by the strength of the Austrian schilling, they have gone up 13.2 per cent annually, as against 10.9 per cent in West Germany. Austrian export costs, occasionally graced about a booster effect, but are unlikely to be given any relief by an exchange rate.

CONTINUED ON NEXT PAGE

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AUSTRIA III

Testing year ahead for the banks

CREDIT INSTITUTIONS in Austria have entered upon a new year that will test both their established international connections and their ability to deal with pressures upon profitability deriving from both political and conjunctural factors. Their performance in 1976 has been a good point of departure for the task ahead. Certain personal and political problems have been solved, which led to a more relaxed atmosphere. Thus Dr. Heinrich Reichl, Chairman of the board of Creditanstalt-Bankverein (CAB), the biggest Austrian bank, has been confirmed in office, albeit for a limited term of two years. His position had come under attack from the Socialists who are in power as the country's Government.

CA is largely State-owned, though it is expected to comport itself as a commercial bank, and is traditionally been within the sphere of interests of the People's Party, now in opposition.

Component

The smaller of the two major commercial banks, Oesterreichische Länderbank (some considered a Socialist), has been placed under the direction of Dr. Wolfgang Erdl, in succession to Dr. Franz Ockermann, the executive chairman who died on December 5. Dr. Erdl grew up within the bank and may be expected by and large to continue the policies of his predecessor who was first and foremost a man of the big industrial credit. But under Dr. Erdl's direction Länderbank may cautiously revise its lively, conservative attitude towards the expansion of retail banking as a component in its business.

Historically, Austrian credit institutions are divided into the commercial sector, which used to deal mainly with the wealthy and with industry; and into a sector of savings banks and mutual banks founded upon the basis of the small man, of farmers or of local business and authorities. With the passing time, the distinction between these sectors has become blurred. But it has by no means been overcome.

As a result, for instance, the commercial banks do not have branches in many by now quite prosperous small towns. New branches have to be licensed by the Minister of Finance, a requirement that the commercial banks would like to see abolished. Doing so would involve a considerable break with Austrian traditions.

At the time of the attack on Dr. Reichl last spring it so looked as though some realists wished to undermine the position of the two big commercial banks as quasi-industrial holding companies, rather upon the German model. The suggestion was put forward

that their holdings in industry should be merged with the State-owned Austrian industrial sector. On the face of it the change would not have been too revolutionary, since the State also has controlling shareholdings in both of the banks concerned. But given that CA is closer to the People's Party whereas Länderbank is sometimes described as "red" as far as personnel matters are concerned, such a reorganisation would have upset the delicately balanced system of political checks and balances which is so important a feature of Austrian public life and public appointments.

That particular row appears to have blown over. In time-tried fashion a commission was appointed to look at co-operation between State-owned and bank-owned industry, and little has so far been heard from it. There is some reason to suppose that there is opposition to the merger scheme even within the Socialist Government itself.

In the meantime Länderbank has actually increased its industrial interests by acquiring a controlling share in the Austrian affiliate of Stung, a Swiss road-building company. The Austrian company has a turnover of about Sch.1bn. (about £34m. a year). It joins a concern which includes possessions such as Waagner-Biro (engineering), Perlmoser Zement (cement) and Chemiefaser Lenzing (fibres). CA's industrial interests include Steyr-Daimler Puch (motor industry), Jenbacher Motorenwerke (engineering) and Semperit (rubber). Altogether these bank-owned industrial companies provide about 10 per cent. of industrial employment in Austria.

The tendency in bank Boardrooms is to say that an offer for these companies at full market price would be considered or even accepted — which sounds like a banker's polite "no." In any event no such offer has been received or looks likely for some time to come.

Political and personnel problems apart, the Austrian credit institutions face a number of financial and economic challenges this year. During the first half of 1976 they were plagued by a period of excess liquidity which must have borne down heavily upon profit margins. In the year as a whole, however, profits appear to have been well maintained throughout all sectors; in the closing months demand for credit increased rapidly, causing an expansion of some 21 per cent. above levels prevailing a year before.

This was due in part to the cyclical recovery of demand for credit from industry, but rather more to personal and other small credits: Austria has been on a car buying spree, and certain adjustments to the contractual savings system caused a heavy demand for gifts which

may to some extent have been bought on credit. It remains to be seen whether industry continues as an expansive factor according to the usual cyclical pattern that ought to be the case, but there is some reason to believe that the upswing may have faltered (just as it did some months ago in West Germany). In that case there may be less demand for bank credit than expected.

Spreads will be coming under pressure from the introduction of a new tax on lines of credit (as opposed to straight loans, which have always been subject to this impost). The tax takes the form of a levy raised once, amounting to 0.8 per cent. of the line, or to 1.5 per cent. in the case of credits extended for over five years. Credits of less than Sch.1m. will not be liable to this tax until the end of 1977. The indications so far are that the credit institutions will try to absorb the levy, instead of passing it on to customers.

The credit tax was introduced

as part of a series of measures intended to arrest the decline into increasing deficit of the Austrian budget. Nevertheless Dr. Hannes Androsch, the Finance Minister, expects to have to borrow some Sch.30bn. this year, of which maybe Sch.6bn. will have to come from abroad. Foreign borrowing will be further increased by the needs of the electricity generating industry, which traditionally imports capital since it requires longer maturities and larger single emissions than are usual within Austria.

In this context it is important that foreign business is by no means the preserve of the commercial banking sector. In particular the savings banks, through their umbrella institution the Girozentrale (GZ), have been active lenders, borrowers, and co-managers on the Euro market scene. Far from being a wallflower, the so-called co-operative sector is powerful in Austrian banking.

Of the aggregate assets of the

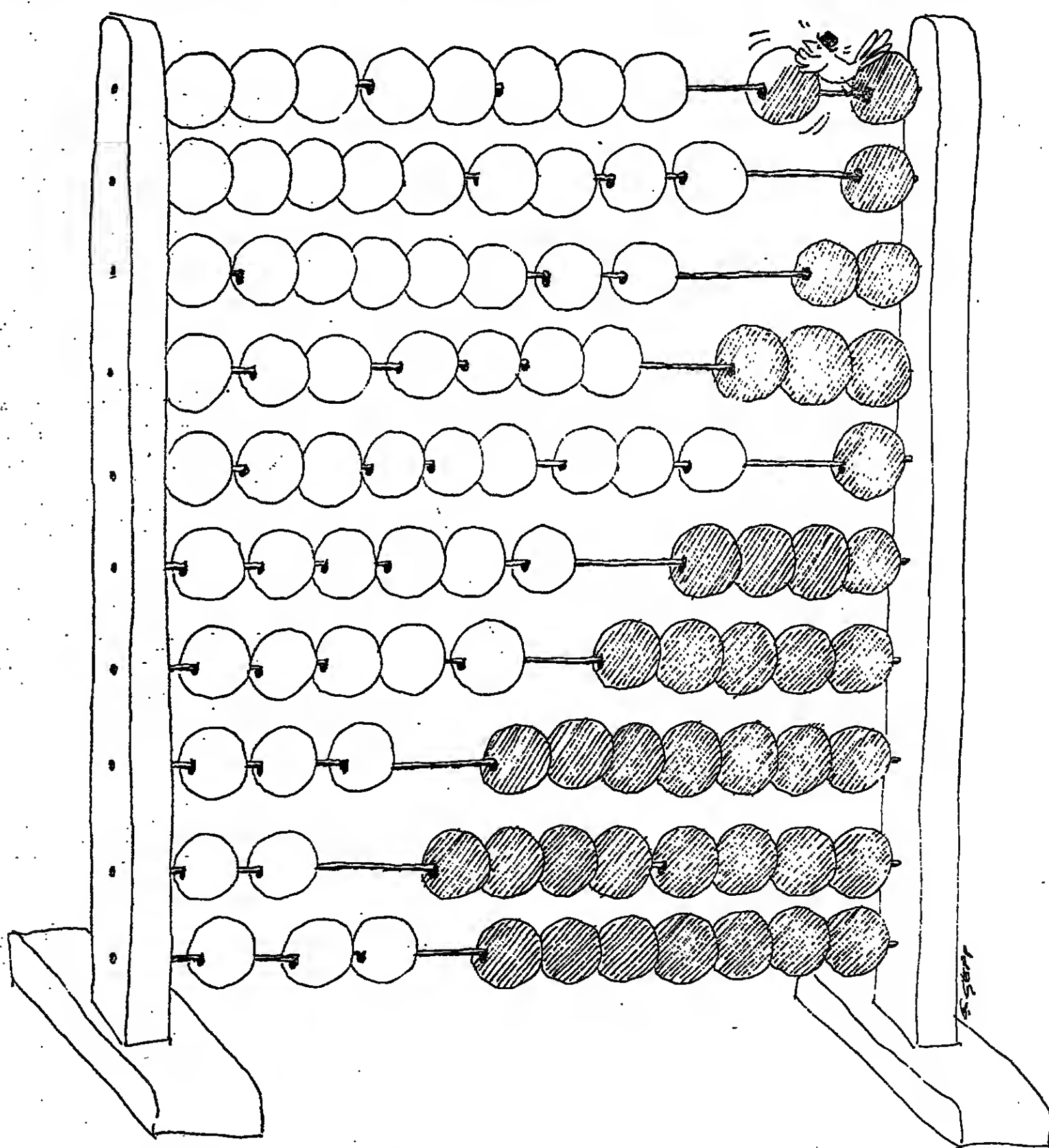


Headquarters of Creditanstalt Bankverein in Vienna.

banking system at the end of October, 1976, the commercial banks accounted for 31 per cent., the savings banks for 25 per cent., and the agricultural co-operatives, the so-called Raiffeisen banks, for 19 per cent. Argument is possible about how clearly these figures reflect relative sizes, but not about the general truth that the little man's banks are no longer into consumer spending, while the rest will be reinvested in some other way. Since the detailed questionnaire about

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Payments

CONTINUED FROM PREVIOUS PAGE

A relatively rapid expansion of exports into Eastern Europe helped the Austrians to overcome the recession that struck their foreign trade in 1975, but it may have come to an end now. The smaller State trading companies, which are especially important in Austria's export trade, have run into foreign exchange problems as a result of the oil crisis and high credit facilities to a "strongly-restrained" is now considered to be prudent.

North Korea has asked for a loan on a relatively high rate of Sch.800m., and one of the Communist countries are run up a debt that is large by reference to the small size of the Austrian economy. Austria has pointed a way round that problem in some cases; Russia is delivering natural gas against Austrian pipes, and negotiations are under way with Poland to buy electric power from a thermal power station to be built by Austrians.

The tubes deal has been of some help to the Austrian steel industry which, because of unfavourable geographic facts, has been hit particularly hard by the international steel crisis. The fact that steel accounted for 10 per cent. of Austrian exports last year must be accounted a structural weakness.

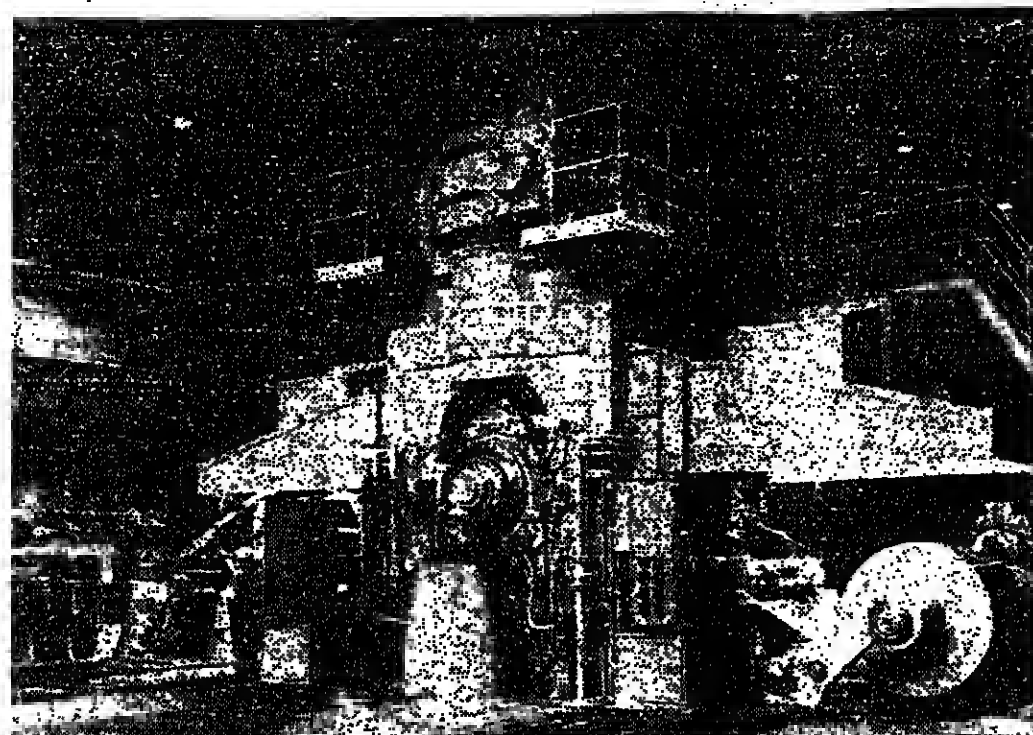
On the other hand it is remarkable how great a role small companies play in Austrian exports. The Chamber of Commerce organisation calculates that 9 per cent. of Austrian exports derive from this source — not counting the components that they deliver to bigger Austrian exporters. As often as not the first step into export markets is taken as the result of personal ties with neighbouring Germany. Maybe an Austrian engineer returns home from a spell of work there and sets up his own business. His first export orders may very well be from his former employer — but many small businesses have gone on from there.

It would hardly be possible if the chamber of commerce organisation had not built up an efficient organisation for searching out export opportunities, or opportunities for industrial collaboration abroad. Austrian Trade Delegates, as they are called, are stationed in 50 countries, which roughly gives them parity with Austrian ambassadors. They are not government employees, but their funds are in fact provided by a levy of 0.3 per cent. on all imports and exports, collected by the customs service. Businessmen in Austria speak of their government as do their counterparts elsewhere; but that does not rule out a bit of collaboration or partnership.

W.L.

AUSTRIA IV

Redeployment needed in State sector



A cold-rolling mill in a Voest Alpine steelworks.

ON THE face of it, Austria's economy seems to be dominated by one company called OEAG (Oesterreichische Industrie-Verwaltungs-AG Aktiengesellschaft) with an estimated turnover of Sch.85bn. (almost £3bn.) and with a labour force of over 110,000. OEAG ranks thirtieth in the list of the 500 leading industrial companies in Europe as compiled and recently published by the Deutsche Commerzbank. But as with so much in Austria, the position of OEAG is deceptive too, and it is highly unlikely that apart from a relatively small circle of the people directly or indirectly involved the average Austrian would be able to explain what the company with the long-winded name actually does.

OEAG is the holding company for the whole of the nationalised sector of industry. It is not generally known outside Austria that immediately after World War II the entire iron and steel industry, the oil industry, large segments of the heavy engineering and electrical industries and most of the coal mines as well as the non-ferrous metals industry were nationalised. The two main political parties made this decision jointly in order to safeguard these crucial sectors during the Four-Power occupation (which lasted until the end of 1955) and to provide the capital needed for reconstruction.

Public

It is important to stress that the public sector is much larger than the nationalised industries as such, with one in four wage and salary earners employed by the State, provincial and municipal authorities. According to the latest available statistics, the nationalised industries under the umbrella of OEAG account for one-sixth of the industrial labour force. Yet during the past five years the investments made in the nationalised sector amounted to one-third of industry's aggregate capital spending. Between 1964 and 1975 industrial investments as a whole doubled, those of OEAG, however, showed a fourfold rise.

The sector is a mainstay to Austrian exports, since its own exports in 1975 accounted for 38.7 per cent. of total turnover and reached almost Sch.30bn.

Provisional estimates indicate a further rise in sales abroad last year to Sch.34.5bn. As turnover also rose from Sch.81bn. to Sch.85bn., it is evident that the stagnation recorded in 1975 was overcome.

However, the Director General and Chairman of the Board, Dr. Franz Geist, warned last September when presenting the balance-sheet for 1975 that the cash flow between 1974 and 1975 dropped by 43 per cent. to Sch.5.2bn. He warned that long-term sales opportunities were being jeopardised by the fact that some sectors were producing at too high a cost. "One of our most important problems is to analyse where and why there are high-cost producers," Dr. Geist added.

But this is precisely the Achilles heel of the entire nationalised sector. The point is that OEAG is merely an umbrella outfit without any meaningful decision-making power. This is the background to the permanent conflict between the Board of the holding company and the powerful general managers of such large concerns as Voest-Alpine, alone accounting for half of the turnover and over two-thirds of the labour force of the nationalised sector, OEW, the State petro-

leum concern, Chemie Linz, the chemical concern, and other enterprises. This vast industrial empire has for three decades been subject to changes in the form of State control always reflecting the ups and downs in the fortunes of the two main political parties. The plan, originally drawn up by the People's Party and its top expert in charge of the sector, Dr. Josef Taus (who in the meantime became the Party leader) envisaged OEAG as a real holding company, with managers no longer nominated by the political parties but by the Board.

Lagging

Since the two Socialist electoral victories in 1971 and 1975 the nationalised sector has been affected by major reorganisations. First, as from 1973 the entire steel sector was merged followed by the fusion of the special steel producers. Concentration also affected the aluminium and non-ferrous metal sector. But political and regional backseat driving has not been eliminated. Structural improvements, let alone mergers or the closure of uneconomic plants, have so far met with vigorous resistance from regional lobbies, since Austria is a federal state of nine provinces. The perhaps most famous,

by 12 per cent. to 3.6m. tons in 1975.

The alarming situation was revealed last summer when Voest-Alpine had to use up reserves to cover a Sch.660m. loss. Though last year's results are expected to show an improvement and a 15 per cent. rise in turnover, orders in hand last October were 10.7 per cent. and foreign orders 18.2 per cent. down on October 1975. The rate of incoming export orders was even 40 per cent. down on the levels registered in 1976. The special steel producers report a 36 per cent. fall in the order book at the end of last October compared with that month a year earlier. What has helped to avert greater losses was the switch to machinery and industrial engineering, whose share has risen to 30 per cent. of Voest-Alpine's turnover.

Its veteran Director-General, Dr. Herbert Kolier, who after 15 years at the helm is retiring prematurely, this summer claims that only the birth of the steel conglomerate as of 1973 provided the conditions for a co-ordinated investment strategy which after all involves annual capital spending to the tune of Sch.3bn. As the merger was soon followed by the steel recession it is difficult to judge whether the events have confirmed the warnings of the opponents of the merger. The merging of the weak State companies into the stronger one may well have made ruthless rationalisation more difficult.

Between 1973 and 1974 the workforce in the nationalised steel sector grew by 8,000, though some independent observers estimate that a drastic shake-out of surplus labour could affect as much as 10 to 15 per cent. of the total. But there can be of course no question of massive redundancies. A freeze on new employment and the possibility of early pension benefits for people over 50 as well as internal shifts should help to maintain full employment.

The aluminium sector is another weak spot while the oil, chemical and electrical sectors are doing reasonably well. But here too a redeployment of capacity is overdue. In sum, the nationalised companies have to take some unpopular decisions—and the sooner the better.

Paul Lendvai
Vienna Correspondent

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Steadily widening energy gap

AUSTRIA IS faced with a widening gap between the steadily rising demand for energy and dwindling reserves of crude oil, natural gas and even of coal. The share of imports in satisfying domestic demand has risen from 35 per cent. in 1960 to 58 per cent. in 1970 and to an estimated 65 per cent. last year.

The long-term energy policy forecast, just revised by the Institute for Economic Research, comes to the conclusion that by 1980 imports may well provide

80 per cent. Between 1965 and 1973 Austria's energy consumption rose at an annual rate of 5 per cent. The oil crisis of 1973 and the slackening of growth in 1975 led, however, to an unexpected drop in overall demand for energy of 2.6 per cent. in 1974 and 2.3 per cent. in 1975.

Although last year energy consumption was again rising by an estimated 4 per cent., the long-term energy forecast has undergone a downward revision. The experts now reckon that consumption will rise by 5 per cent. less than was estimated a year earlier. This means that the annual growth of demand between 1975 and 1985 should be about 4.5 per cent. Yet at the same time it is regarded as unlikely that Austria would be capable of maintaining the production of primary energy at previous levels.

Shift

The shift from coal to oil and natural gas coincided with the exhaustion of available reserves. Thus it is now estimated that domestic oil output will drop from 2m. tons in 1975 to 1.6m. tons by 1980. As a result, Austrian crude will account for a mere 15 per cent. of the demand as against 25 per cent. in 1975. Known oil reserves will be exhausted in ten years' time. The situation in the gas sector is not much brighter. If the present natural gas consumption is doubled, reserves will be exhausted by 1985. Coal deposits, in present assumptions, will be worked out in 36 years. Even the domestic prop to energy supply—hydroelectric potential—will at best only maintain its present share of about 10 per cent. of domestic consumption. Hydroelectric plants currently satisfy two-thirds of the domestic demand for electric energy. By 1980 the hydro-

electric potential will have been fully tapped and with a continuation of the current growth rates of 7-8 per cent. a year will be able to cover only half the domestic electricity consumption.

All these developments are of course reflected in Austria's balance of payments. Between 1970 and 1975 the import bill for oil and natural gas doubled to Sch.18bn. The State electricity corporation estimates that energy imports might cost as much as Sch.24bn. in 1980 and could reach even Sch.40bn. by 1985.

While the OPEC countries, primarily Iraq and Libya provide the bulk of crude oil imports, the Soviet Union is also an important supplier, with shipments reaching 1.4m. tons last year. It is the growing dependence on East Europe that also raises some awkward questions for Austria. Thus according to the figures for the second and third quarter of 1976, the Eastern bloc (primarily the USSR) accounted for 99.6 per cent. of natural gas and between 20 and 30 per cent. of the crude oil imports. Eastern Europe (in this case primarily Poland, Czechoslovakia and the USSR) supplied 81 per cent. of the hard coal, 46 per cent. of soft coal and 64 per cent. of coking coal imported by Austria during this period.

It is against this background of rising energy demand, falling domestic output, dwindling reserves and a steadily growing burden on the external payments balance that the recent projected nuclear power plant and the entire atomic power programme must be seen. The original energy programme of the Socialist Government envisaged that by 1990 three nuclear power plants, with a total installed capacity of 3,300 MW, should be in operation. The first plant at Zwentendorf

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GENOSSENSCHAFTLICHE ZENTRALBANK AG (GZB) is Austria's fourth largest joint stock bank. With a rise of some AS 42bn. in its balance sheet total and appreciable rates of growth in the last few years (1973: +45%, it has stepped up considerably its recent international activities. Apart from its business as a commercial bank, its position as the central institution of the country's agricultural credit co-operatives makes it largely responsible for the foreign business of the approximately 2,000 banking offices which comprise this sector of credit business in Austria. This sector, which has a current balance sheet total of close on AS 200bn., accounts for some 20% of the overall volume of business of all Austrian credit institutions and which, particularly with its exchange bureaux, is represented in every tourist resort to Austria. In its foreign business GZB has expanded its network of correspondents and currently maintains relations with some 1,000 banks in 75 countries. Through the United Co-operative Bank Group, which has 38,100 branch offices in Europe, it co-operates closely with its sister institutions in France, Germany, Holland, Denmark, Finland, Italy, Belgium and Sweden. GZB decided to join the group because, as for other members, foreign business has increased in importance over the last few years.

Interest in London & Continental Bankers Ltd.

Apart from expanding its network of correspondents, GZB has been active in international security dealings and issues, participation in international loans as manager, underwriter or seller. During the last few years GZB has participated in a total of 230 issues, including 10 as manager and 90 as underwriter. In 1976 alone it participated in more than 120 such operations which represent close on 80% of all major international issues during the year. Progress was also made in the foreign exchange business. There was an increase in the total of foreign currency credits granted to Austrian customers and a larger number of international financial operations, including some on a "roll-over" basis, as well as the provision of a foreign trade service and the establishment of a network of interests in the most important financial centres in Europe and overseas. GZB has interests in Inter-

nationale Bank für Aussenhandel AG, Vienna, BHF-Bank DG-Bank International S.A., Luxembourg, and London & Continental Bankers Ltd., London, and has co-operated in the establishment of Bank Europäischer Genossenschaftsbanken (BEG-Bank) in Zürich. The most recent development was the establishment of a representative office in Hong Kong, opened in September 1976 and operated jointly with DG-Bank, Frankfurt. Recent investments aimed at broadening the range of international services offered by the Bank included the purchase of an interest in Factor-Bank International Factors-Austria GmbH, thus making export factoring services available to the Bank's customers. GZB has a special Foreign Trade Service, in addition to the banks established and interests acquired already described, all of them with international experience and world-wide scope useful in foreign trade. GZB has the advantage of being based in Vienna, a focal point in East-West trade which plays an important role in switch and barter transactions. Access to markets in the Far East and South-East Asia, with their undoubted future potential, is being facilitated particularly by the representative office in Hong Kong. GZB has also joined the world-wide network of the Swift System (Society for World-Wide Interbank Financial Telecommunications). Participation in this global project will enable foreign trade payments to be made much faster than they have been up to now. GZB has not only been a regular issuing house in the Austrian capital market. It also carried out, in both 1975 and 1976, a successful private placement of DM 30m. and an additional placement of US-Dollars 25m. in 1976 on a floating rate basis.

Austria, as a small country closely involved in the world economy and with only a modest sized domestic market, today more than ever, needs international links if it is to raise its standard of living still further. Austrian banks, too, must do all they can in the monetary field in order to achieve these ends. GZB for its part will do everything in its power to help, using both its funds and its international connections.

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Mixed growth prospects for industry

A VIENNA weekly recently published a list of the hundred largest companies in Austrian industry. Predictably, if Mr. Sallinger no less than 5,000 measurement is made in terms of turnover and labour force, the nationalised concerns such as Voest-Alpine, the steel-maker, OEFV, the oil corporation, and so on occupy the top places in the industrial league. However, if one excludes the nationalised sector, the subsidiaries of such multi-nationals as Siemens, Philips and Unilever, and the industrial holdings of the two commercial banks, Creditanstalt and Leanderbank (which in turn are controlled by the State) as well, the reader would have to look a long time before finding a genuine "private" industrial company.

According to the survey, the first truly privately owned company—as distinct also from the giant agro-industrial enterprises—takes only 26th place. It is a family-run building company with an annual turnover of Sch.1.6bn. (about £55m.) and a production staff of 3,500. Indeed, the typical Austrian private industrial company has an annual turnover of only Sch.300m. to Sch.500m., and is owned and very often also managed by the family.

Contrast

It is this contrast between the concentration in the nationalised sector and the large number of small to medium-sized concerns which characterises Austrian industry. The nationalised sector accounts for 16 per cent. of the 626,000 industrial labour force (excluding construction and utilities). The big concerns (including, for example, the motor company Steyr-Daimler Puch and the rubber producer Semperit) which belong to the empire of the nationalised banks are estimated to represent about ten per cent. of total industrial production.

On the other hand, 86 per cent. of the companies have a labour force under a hundred. As Mr. Rudolf Sallinger, the President of the Federal Chamber of Economy, recently stressed in an appeal for Government assistance, the small and medium-sized enterprises in industry, trade, commerce and services employ two-thirds of the wage and salary earners.

The success story of Austrian industry and indeed the economy as a whole since World War II shows that there is not always an immediate connection

between the industry's structure and its export performance. Thus according to Mr. Sallinger no less than 5,000 companies are engaged in exports, which in turn account for 30 per cent. of the aggregate output of industry and trade. While some large nationalised companies grapple with serious difficulties, there are a number of companies created by imaginative and dynamic entrepreneurs which enjoy international reputation in such competitive branches as winter sports goods, primarily skis, optical and precision instruments, cameras and projectors, etc.

That is not to say that structural reorganisation is not needed in some special cases and in selected sectors. Thus a successful reorganisation of the textile concerns near Vienna was carried out last year, helped by subsidised credits from the Government. A redeployment of capacity is also needed in the paper and glass industries. While some Leftists on the fringe of the ruling Socialist Party and in the unions complain that Socialists are "saving capitalism," advocates of the market economy suspect the Government of a creeping "socialisation" of the relics of capitalism.

The complex ownership patterns in Austria's mixed economy are incidentally also reflected in the fact that foreign capital directly or indirectly controls 23 per cent. of domestic industry. However, it must also be pointed out that during the last decade there has been no change in the extent of foreign influence. This in turn is connected with the fact that Austria is no longer a low-wage country. On the contrary, the costs of social security and a variety of fringe benefits which belong to the empire of the nationalised banks are estimated to represent about 51 per cent. of nominal wages, as against 28 per cent. in Switzerland.

Industry has profited from two decades of labour peace. Strikes are rare and lock-outs virtually unknown. Between 1969 and 1973 Austria registered a total of 41.5 minutes lost per gainfully employed person as a result of strikes. According to the latest available figures, in 1975 only 3,783 employees were involved in a labour conflict which cost 5,500 working days. To sum up, Austria can claim one of the best strike-free records in the world.

The business community, however, has to pay a price for War II shows that there is not always an immediate connection

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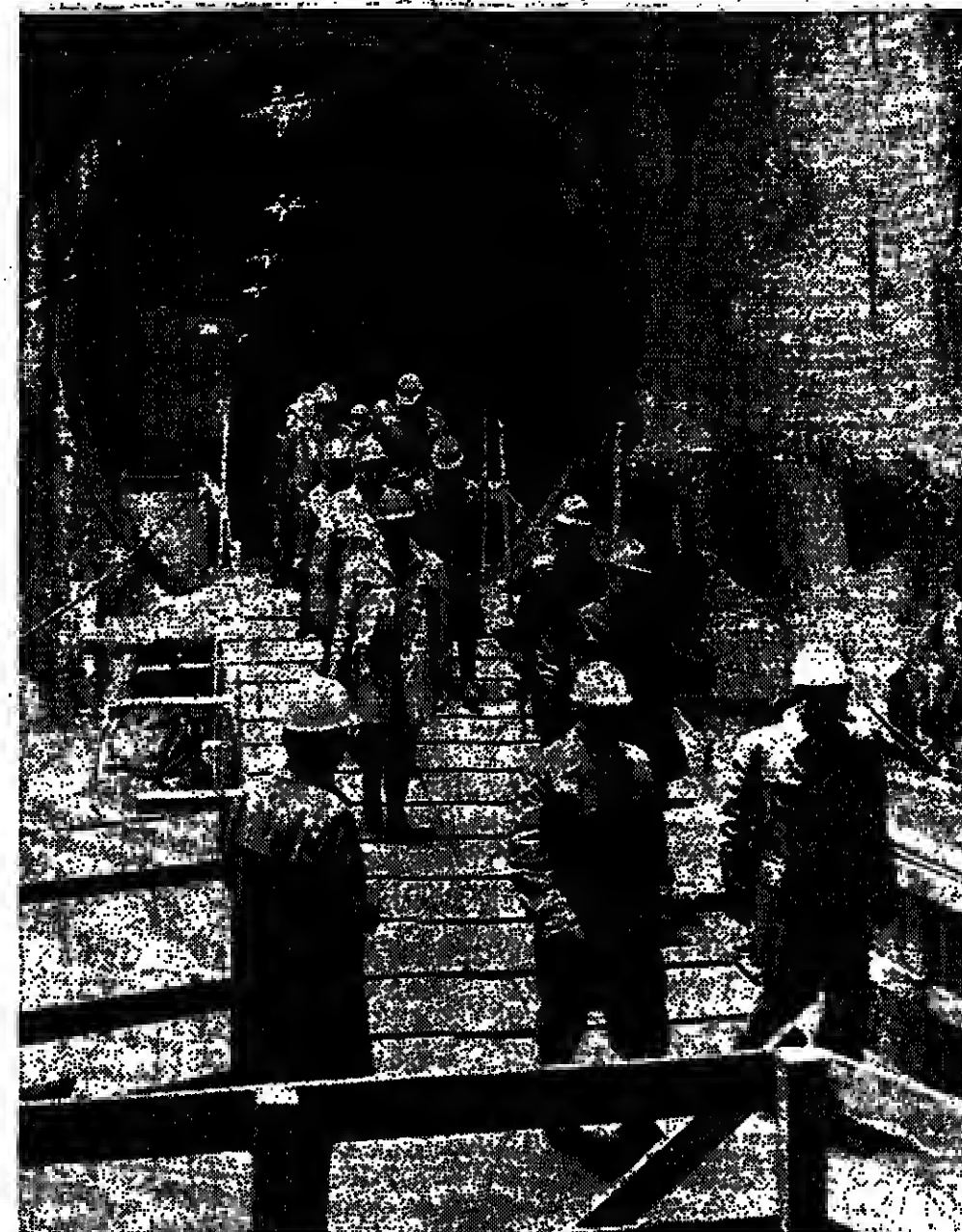
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Workers on Vienna's underground railway, which is currently under construction.

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Energy

CONTINUED FROM PREVIOUS PAGE

should be on stream by the autumn of 1977, the second by 1985 and the third by 1990.

Public opposition to nuclear power, however, has also reached Austria, as usual with some delay. It has now been confirmed that, due to the delays in granting the necessary waste permits, the first nuclear plant can go into operation only in the spring of 1978, with a capacity of 740 MW. Although the opposition People's Party has

Government to launch a full-

scale information and discussion campaign. The results will be presented to Parliament before the summer of this year. Only then will a decision be made about the building of a second nuclear power plant. The political parties and the Government, too, are split over the issue, and it is also possible that a referendum will be held. In any case, Chancellor Kreisky, who lived in Sweden for 13 years, is keenly aware of the explosive political implications of atomic power controversies.

At any rate it is now certain that by the end of the 1980s at best only two (and not as earlier expected three) nuclear power plants will be in operation. This has, of course, changed the forecasts too. By 1980 nuclear power should have a 4.4 per cent. share in Austria's total primary energy consumption. However, the percentage has had to be reduced from the earlier projected 9.2 per cent. in 1985 to 6.7 per cent. and from 12.6 per cent. in 1990 to an estimated 8.3 per cent.

Severe

The advocates of nuclear power and critics of the populist lobby hope that an extremely severe winter could bring the entire campaign to a sudden halt, since power cuts affecting traffic, transport and leisure, would diminish the arguments of the opponents of nuclear power. The Director General of the Nationalbank, Dr. Heinz Klenz, stressed this with brutal frankness in a recent article in the Socialist Party's official paper. For the time being, however, Austria, a latecomer to the nuclear age, has postponed the decision on whether to go ahead with its nuclear aspirations. This in turn is bound to have, even if temporarily, a major impact on the shape of future energy policy, with the role of nuclear power shrouded in uncertainty.

P.L.

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AUSTRIA VI

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Tourism adjusts to lower growth

AUSTRIA, A small landlocked country of 7.5m. people, situated on the fringe of what used to be called the "free world" has not only maintained its position as a great power in the European tourist league but has even managed to improve, however slightly, its market share. In a disappointing year for the tourist industry, the setbacks registered during the 1976 summer season (May to October) were less pronounced than the losses recorded, for example, in Spain, Yugoslavia and Switzerland.

The fall compared to the summer season in 1975 represented a mere 2.5 per cent. Taking the first 12 months, the picture improved, with overnight stays by foreign tourists showing a rise of 1 per cent, to just over 75m. Foreign earnings are estimated to have risen by 8 per cent, to a peak of Sch.35bn. (about £1.9bn.) and are expected to go up by a further 12 per cent, this year. In view of the rapidly rising expenditure by Austrians abroad (up by 10 per cent, last year and expected to jump by 18 per cent, this year) the net intake in 1977 was up only by 7 per cent. This estimate, made by the usually optimistic Minister of Trade, Dr. Josef Strohachner, is higher than the Central Bank statistics for January-November which showed only a 1.8 per cent, rise to Sch.24bn. This, however, must be an average stay of seven days, adjusted if one takes into account the Sch.3bn. in cash the combined population of taken out by foreign workers, West Germany, Benelux and Scandinavia. This, however, is a relatively small sum, and the government, the industry itself more rather than a dream, and economic commentators would culminate in the tourist record-breaking growth rates is holiday-maker for each over. Not long ago Mr. Ernst Knapp, one of Austria's top financial journalists, estimated that if the annual growth of 9.4 per cent, recorded during 1953-1975 continued, Austria might be able to report no fewer than 75m. overnight stays by the year 2000. Taking into account the tourist industry's present trends adversely affecting the economy as a whole and the external payments situation in particular, Gross revenues from tourism last year accounted for 28.6 per cent, of the total exports of goods and services. It was pointed out, for example, at a conference organised last autumn by the Federal Chamber of Economy that in the first eight months of 1976 the tourist industry earned 24 times more foreign earnings than the export earnings of the iron and steel industry during the whole of 1975. This, however, is only one side of the coin. The other aspect is the rapidly deteriorating ratio between the net surplus from tourism and the visible trade deficit. In 1970 the net intake was able to offset 98 per cent, of the deficit, but by 1975 the proportion dropped to 86 per cent, and last year it sank to a low of 59 per cent. This year, too, tourism will be able to offset only 60 per cent, of the trade deficit.

Taking the 1970-76 period, the figures reflect a growing disproportion caused by the slower growth in the number of holidaymakers on the one hand and the changing life-style and spending habits of Austrians on the other. Between 1970 and 1976 (excluding transfers by foreign workers) Austrians doubled their expenditure abroad and imports jumped by 118 per cent. During the same period, however, income from tourism rose only by 84 per cent, and exports by 104 per cent.

What, then, are the structural weaknesses in an industry which has so long been the prop both to the economic upswing and the balance of payments? Despite repeated exhortations in the past, the performance of the industry still depends on two main factors: the weather and

the German holidaymakers. With regard to the latter, the 3 per cent, fall in the number of West German tourists during last summer was the decisive factor causing the overall 2 per cent, drop in overnight stays. The fact that the number of tourists from France was up by 20 per cent, from the U.S. by 17 per cent, and from the Netherlands and Switzerland by 6 to 7 per cent, was a meagre consolation. At the Chamber of Economy conference, Mr. Otto Schreiner, the Chairman of the association of hotels and guest houses, pointed out that the fall in the number of Germans during January-August was alone more than the combined total of British and Swedish visitors during the same period. The explanation that the reduction was primarily due to the poor weather and the repercussions of the economic difficulties in Germany is only partly accepted. One can point out that the exchange rate of the Austrian schilling, the much higher inflation rate (7.3 per cent, compared to that in Germany, the steep rise in officially regulated prices and services and the excessive taxes on drinks have combined to make Austria less attractive to German tourists.

There are, however, other problems. Many foreign tourists are attracted by what may be described as the "family character" of the Austrian tourist industry. Thus two-thirds of the hotels, inns, boarding houses and restaurants, some 34,000 units, are purely family businesses. About 16,000 employ up to four people during the season. Only 51 companies have a labour force of over 100. This kind of structure makes the much-needed improvement of quality and the overdue widening of the range of services offered very difficult.

Lack of co-ordination was also reflected in the 1980s and early 1970s in the growth of accommodation. At present private accommodation in the tourist resorts accounts for 40 per cent, of the total capacity of 1.10m. beds. During the last winter season, for example, the number of private rooms was up

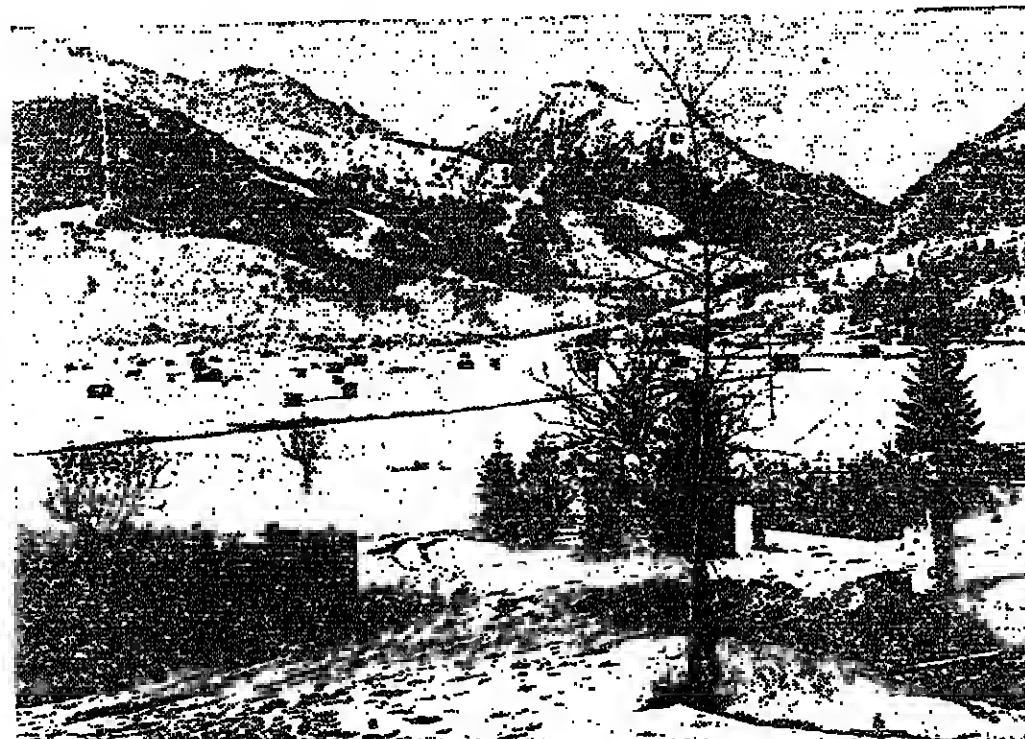
by 10 per cent. Yet overall capacity was utilised only to 20 per cent. During the 1975 calendar year, for example, only 19 per cent, of the available private accommodation was taken, while hotels and inns were operating at 27 per cent, of capacity.

The latest figures show that the number of foreigners taken private rooms in the summer season fell by 7 per cent. In contrast the higher class hotels and pensions reported growth rates of up to 8 per cent, though the share of the so-called A and B hotels and guest houses has risen from 19 per cent, to 25 per cent, in 1975. There is still much to be done to improve service and quality.

The problem of capacity utilisation is closely connected with the relatively short peak period. The president of the Chamber of Economy, Mr. Josef Strohachner, stressed at the conference of tourism that Austria's relative share of European tourists is well below average in June and September. The same tourist structure is noticeable during the winter season, when tourist traffic is concentrated in January and March.

Meanwhile some progress has been reported in the last few months. In winter tourism, whose share has risen from 31 per cent, in 1975 to 33 per cent, last year, in terms of foreign exchange revenue, the winter season share has reached a higher proportion, 36.3 per cent, of the total. According to recent estimates, winter holidaymakers spent on average Sch.864 per day, as compared with Sch.555 by summer tourists.

The industry is pressing for tax concessions and more subsidised federal credits at a preferential rate of 4 per cent, its spokesmen point to the extremely high proportion of borrowing, with loans ranging from 41 to 87 per cent, of the average capital. The possibility of preferential tax treatment of investment funds from retained profits, particularly the creation of indoor land courts, swimming pools etc., are regarded as essential in the development of the industry. The increase in federal funds for tourist promotion abroad, by Sch.220m. this year, the provision of Sch.275m. for special credits granted to some 90 firms last year as well as other investment promotion measures indicate that the Government is not turning a blind eye to the problems of an overextended but crucial industry. In turn the spokesmen of the industry have realised that, in the words of Mr. Schreiner, Austrian tourism has entered a phase of "dampened growth". The improvement in quality and the weeding-out of surplus and poor accommodation together with co-ordination action by the federal and local authorities in the field of transport and environmental policies, are the most urgent tasks to be tackled if Austria wants to retain its pre-eminent position in the highly competitive world of international tourism.



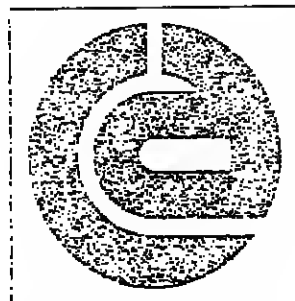
A view of Lermoos, seen from Ehrwald.

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The Management Page

EDITED BY JOHN H. JONES

Sue Cameron profiles a design management consultancy whose partners believe that it is possible to maximise creativity while minimising risks

Boost for product innovation

ONE OF THE criticisms levelled against British industry is that it either ignores its designers altogether or places such stringent limits on their inventive talents that they are rarely able to create new products.

This complaint is borne out by the experience of a design management consultancy called Smallfry which specialises in mechanical engineering. The consultancy is called after its two founding partners — Anthony Smallhorn, who used to be research manager at Ogle Design, and Tim Fry who was head of advanced vehicle design at the former Rootes Motors.

The partners work from their homes which enables them to keep down costs. They have been in business for four years and during that time they have produced a sea truck for Rotork Marine, they have advised on the design of machine tools and they have worked on ambulances and on commercial vehicles. They are currently developing a prototype fifth wheel for articulated lorries which is designed to lessen the risk of jacking.

They believe there are several reasons for the criticism. Some companies are backward about design because they fear customers will resent radical changes and, when they do eventually take the plunge, they make mistakes through sheer inexperience. Another inhibiting factor, they say, is that even the best company design teams can become stale after working together on the

same product for a long period.

On the other hand, outsiders like the Smallfry partners claim they can often induce an organisation to take a fresh approach to design by acting as creative catalysts and by explaining how any potential risks can be minimised. They can provide the impetus and inspiration that may otherwise be lacking. But to do this successfully, design consultants must be able to adapt to the varying needs and methods of differing companies.

The Smallfry partners claim they are able to do this and that they not only create prototype models or blueprints for their clients in the traditional way but also help companies to plan for diversification and to identify areas for new inventions.

Resources

One of the first things Smallfry does when it takes on a new client is to find out if the company is concentrating its design resources on the right product or component. The consultancy has found that many organisations spend too little time and money deciding what they ought to be designing or redesigning. They tend to plump for a particular item without exploring all the possibilities and without discovering if working on something else risks involved with any new design quite necessarily. And, if an idea does, any prejudices that even the best company design teams can become stale after working together on the

Smallfry says that some companies do not even bother to test the likely reaction of their customers to a new design. They simply assume that customers will reject any radical change and they therefore content themselves with making minor modifications to a tried and tested product.

The motor industry is a prime example of this in the opinion of Smallfry and those responsible for the design of cars and commercial vehicles accept that there is a good deal of truth in the criticism. But British Leyland, for instance, defends the industry's attitude to design by pointing out that innovation is extremely expensive in terms of production costs and the risks involved are considerable. It says that past experience has shown that Leyland customers are conservative souls who prefer proven designs to radically different models that could turn out to have major faults once they are on the road.

British Leyland adds that car customers seem quite happy to buy models that are only cosmetically different from those on sale the year before. The company's arguments are doubtless sound but the Smallfry partners would argue that they can lead to "closed minds." They believe that one of their main tasks is to manipulate companies into taking a more thoughtful and imaginative attitude towards design.

Most of Smallfry's clients go to the consultancy because they have a specific problem or they are interested in a design that

the partners are developing on their own account. But once Smallfry has discovered what sort of design a client company is interested in it does not content itself with working on the technical specifications. Instead, it starts testing the potential market for the new part or product and also looks round for possible alternatives. The Smallfry partners discover if customers approve their client's idea and ask them if there are any other developments they would prefer to see. They then go back to the client company and report their findings. Sometimes a client's initial idea will prove to be a good one in which case Smallfry will start advising on ways of achieving correct performance specifications — vital if a new product is to be successful.

Wrong tree

Sometimes the client decides that their client is barking up the wrong tree. Perhaps the company is thinking of going into a completely new line when it would gain far more by starting to manufacture a component for its established products that it had previously bought in from outside.

Occasionally Smallfry concludes that a client would do well to maintain the status quo and abandon new design projects in the short term at least. For although the partners are anxious to see more innovative designs adopted by industry, they do not believe in innovation for its own sake. The only justification for a radically new design is that it should benefit manufacturers and customers.

The Smallfry partners insist that whether they are producing a prototype for a company themselves or merely providing guidance, the raison d'être of management design must be to minimise risks while maximising creativity.

Demand for graduates increases

CHANGING trends in the balance of demand for graduates between the public and private sector are indicated by reports from four top recruitment organisations. At the same time, however, they predict that, with the number of graduates from universities and polytechnics likely to be up by 4 per cent, this year the employment prospects in general for graduates will not be easy.

The organisation said the decline in the numbers of graduates in applied and pure sciences appeared to have halted. At the same time, there had been a "further substantial reduction" in demand from the public sector for graduates, but with a corresponding upsurge in demand from the private sector, particularly from manufacturing industry.

According to Mr. Norman Lloyd, of Aberystwyth University and chairman of the Standing Conference of University and Polytechnic careers services, there seemed a "good chance this year that industry will get their fair share of graduate talent because students are more interested in the private sector, because the private sector has jobs."

The recruitment organisations are the Computer Assisted Placement Service, the Central Services Unit for Careers Services, the Standing Conference of University and Polytechnic Careers Services. They said output this year was likely to be 56,000 first degree university students and 11,500 from polytechnics. Additionally, 17,000 students would be graduating at higher degree level.

Employment law guide

A GUIDE to employment law has just been published which aims to help managers understand the requirements of employment legislation and to appreciate its implications in determining company policy and action.

The two authors are senior partners in management consultants, Urwick Orr and Partners. They comment that their aim has been to interpret legislation and provide guidance, not to write a legal treatise and the book should not be regarded as authoritative in every case. The authors point out that the employment legislation scene is constantly changing and that, wherever possible, they have indicated areas in which developments are most likely.

Employment and the Law, a management guide to recent legislation, by Richard Pearson and Frank Kenaghan, published by The Financial Times, 10, Bolt Court, Fleet Street, London, EC4A, price £50.

Uncertain trend for managers

BY NICHOLAS LESLIE

AN UNCERTAIN outlook persists for executive recruitment in 1977, according to management consultants. MSL, The company says this view arises from there having been a fall in the demand for executives in the final quarter of 1976, following a steady rise in the previous nine months.

According to the company's latest MSL index, demand for accounting and production personnel in the whole of 1976 was at the lowest level for ten years. In research and development, a total of 3,194 appointments advertised was less than half the 6,648 advertised in 1966. Sales appointments were also well down on ten years ago, the number advertised being 3,813 compared with 5,474.

Mr. Harry Roff, MSL's chairman, feels the results must be disappointing for those seeking an indication of an improvement in executive demand to match the upward movement of other economic indices.

On a year-on-year basis the position is equally depressing. "The past four years are marked by a considerable slide in executive demand, while the time taken to start the climb back out of the trough is the longest on record," he says.

The total number of jobs advertised in categories included in the index was 20,226, which was well down on the 1966 figure of 31,156. A breakdown shows that in the fourth quarter of 1976, there were 1,036 production jobs advertised, representing a static position compared with the third quarter of 1976, although it was 36 per cent up on the 1975 fourth-quarter figure.

The next highest number of jobs advertised was 976 in the sales category, a rise of 2 per cent on the previous quarter and 27 per cent ahead of the 1975 fourth quarter. Accounting advertisements fell, being 12 per cent, below the previous quarter and 4 per cent, beneath the final quarter of 1975.

The total of 5,025 jobs advertised in the final quarter of last year was 3 per cent down on the previous three months.

COMPANY DIRECTORS

BY GEOFFREY OWEN

Case for non-executives

LEWIS WHYTE, chairman of London and Manchester Assurance, once served as a non-executive director of Associated Commercial Vehicles, the bus and truck company later merged with Leyland. In 1958 he became dissatisfied with the way the company was being run. He consulted another outside director, Herbert Hill. They agreed to ask the chairman to make certain changes and, if he refused, they would resign. Much to their surprise, the chairman, Lord Brahazon, seemed greatly relieved by their intervention and they soon found themselves playing an active part in putting the company right.

Some years later, after a series of mergers which Whyte helped to negotiate, he was serving as a non-executive director of British Leyland. Once again, he was unhappy about the way things were going. He argued strongly that management consultants should be called in to take a look at the company, but he could get no backing from any of the other directors. His advice was rejected.

"Unless at least one of the other non-executive directors is of the same mind," Whyte says, "you are operating under a very severe handicap. You can't do much except resign and publicise the issue." There were several specific decisions in Leyland about which Whyte was uneasy, like an Australian large car project and a Spanish investment. But on issues of this sort, where all the technical and marketing know-how is on the side of the executives, it is difficult for a non-executive director to have much influence, especially if he is in a minority of one.

What he can do — and Whyte thinks this should happen more often — is to make sure his dissent is limited. "You must have the courage of your convictions," he says. "On a big decision, if you have got doubts and fears, they should be stated and recorded." This is more than a matter of being able to say "I told you so" if the decision turns out badly. The other members of the Board, both insiders and outsiders, are obliged to take the dissent seriously if he insists on his views being formally written down in the Board minutes.



Mr. Lewis Whyte

Whyte is a strong believer in the importance of non-executive directors, to London and Manchester's investment policy there is a virtual ban on buying shares in companies which have no non-executive directors. "It's a very dangerous position to be in," he says. He recognises that non-executive directors have frequently been ineffective, but he argues that they must be educated to understand clearly what their responsibilities are and urged to fulfil them.

He thinks the right balance between inside and outside members of a Board is about half and half. "The non-executive director should have absolute integrity, courage and reasonable intelligence. He should bring a breath of fresh air from the outside world. He will not understand all the details of the company's business, but as he listens to executives putting forward their case he will have a pretty shrewd idea whether they are telling the truth or not."

Suggestions that the powers and duties of non-executive directors should be set out in detailed legislation do not appeal to Lewis Whyte. He favours a voluntary code of practice such as that embodied in the Institute of Directors' "Standard Boardroom Practice," originally published in 1961 and recently revised in "Guidelines for Directors." Any newcomer to the non-executive role should make a careful study of this document, he advises. Whyte draws a distinction

between the activities of non-executive directors, who are responsible to all the shareholders, and those of institutional investors who, as a general rule, he says, should not have their own representatives on the Boards of companies. Those institutional investors are primarily concerned with safeguarding their own depositors' funds and they must retain the freedom to sell their holding in a particular company if the circumstances require it; this freedom is difficult to reconcile with Board membership.

He believes that institutions should be more active in monitoring management — he is critical of the "corporate and individual laziness" which has caused these duties to be neglected — but he thinks this should be done in other ways than through Board membership.

At London and Manchester he prefers to act as an individual institution rather than in concert with others, but he admits the process is time-consuming. "If you are worried about a company in the Midlands, it will take you several weeks to get to know the business, understand its problems, and form a view of the management." Yet institutions, he firmly believes, must make this effort, possibly hiring specialist staff to conduct the monitoring process. If the shareholder-based system is to survive,

Whyte's personal experience reinforces these views. He was brought into London and Manchester in 1953 as a result of shareholders' pressure. The main instigator was Donald Savory, an actuary and stockbroker who had a profound knowledge of the insurance business and knew what was wrong with London and Manchester. Among other things, it had no non-executive directors. Lewis Whyte had resigned from Equity and Law Assurance shortly before and Savory used his influence to get him appointed to the Board. He became chairman in 1961. Within London and Manchester Whyte has always made sure that the non-executive directors (who represent half the Board) had the character and ability to exert a real influence over the executives. "Our aim for the future," he says, "is to have as good a team as we have now, individually and collectively."

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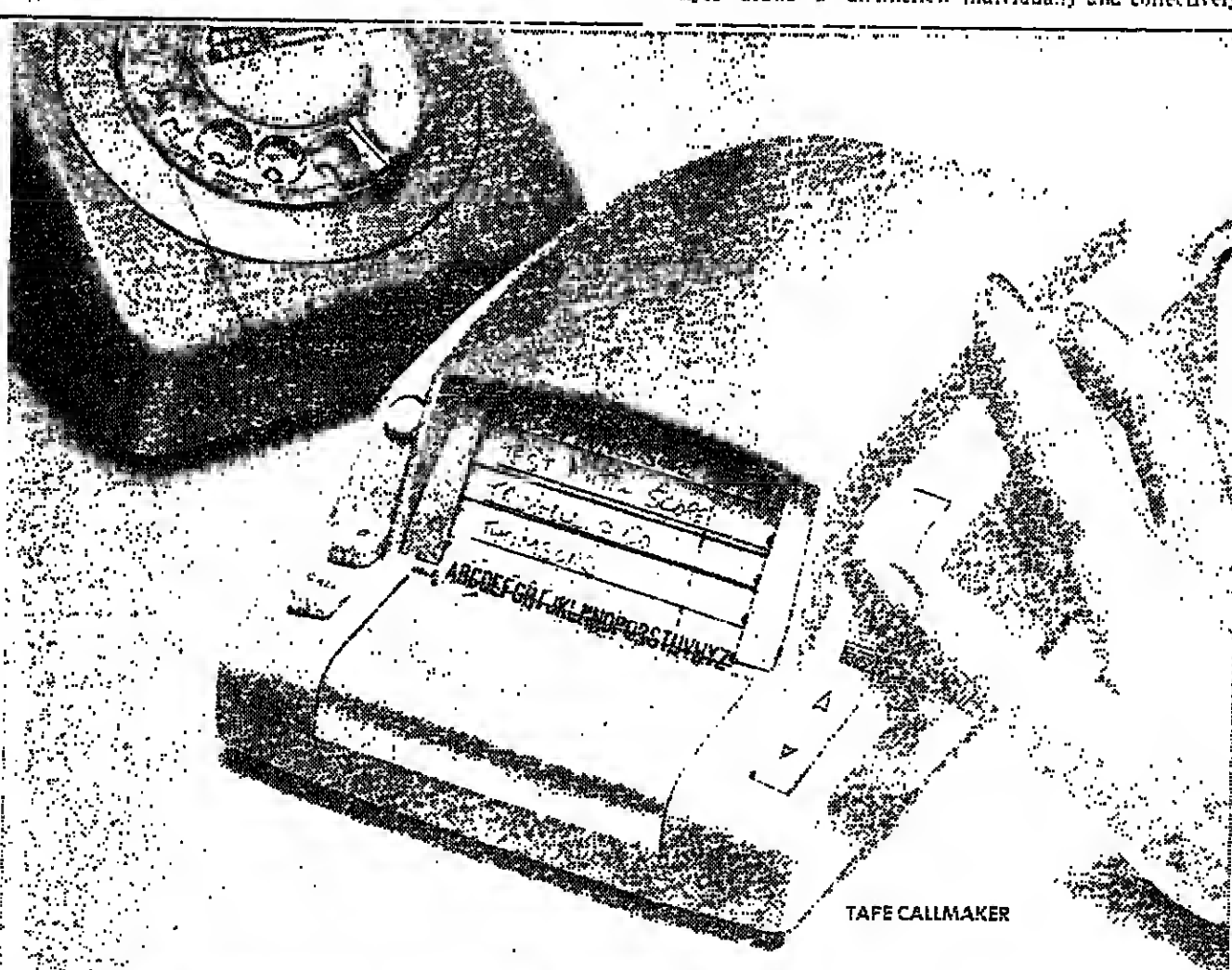
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SOCIETY TO-DAY

BY JOE ROGALY

MPs' chance to support democracy to-day

CONSERVATIVE members of Parliament have a rare opportunity to-day. They will be permitted to vote according to their own beliefs, and on a matter of principle. At first sight the opportunity may not seem very important. It is, after all, merely to do with the method by which the proposed new Scottish and Welsh assemblies will be elected. In fact it could be of profound importance, since the greater the vote in favour of proportional representation for these assemblies the further we shall have travelled along the road towards overall constitutional reform and a consequent shoring-up of our democracy.

For some people that last sentence may be an undigestible mouthful, so the best thing to do is to explain it at once. The story starts—as all stories must start nowadays—with the emergence in autumn 1974 of a Labour Government that rested on the support of fewer than three out of ten of the registered voters. We have had a minority government before; indeed Parliamentary majorities based upon less than half the available votes are the rule and not the exception—but this time there was an important difference.

This Labour Government made itself the creature of both the trade unions and the worst absurdities of its own ideology. It then proceeded to inflict the consequences upon the rest of us. Anyone who believes in democracy should be prepared to resist, with all his or her strength, the imposition of, say, cold-hearted right-wing conservatism by a Tory Government that had been put into power

by a minority of voters; equally the attempt to "move forward to socialism" cannot be accepted by democrats when a large majority of the people are against it. Deeply ideological government is in itself unattractive; its imposition by a minority backed by the arrogance of temporary power is simply not tolerable.

There is a complacent reply to this, and most of us have heard it. In Mr. Callaghan, it is responded, we have a conservative Prime Minister; in the "social contract" and the new persona of Mr. Jack Jones we have an essentially middle-of-the-road policy that does not threaten us with full-blooded socialism. Those genuine democrats who are currently bemused by this view will not let it go until a shock—Andy Bevan perhaps—opens their eyes. The rest of us will note, with increasing dismay, the growing pile of ideological concessions made in the name of the "social contract" and almost certainly against the instincts of the seven-tenths of the people who did not vote for this Government in 1974, plus a goodly proportion of those who did (and including, no doubt, Mr. Callaghan himself).

Brake

Constitutional reform would not in itself halt this continuing erosion of democracy in Britain, but it would make the process far more difficult. Proportional representation at Westminster would oblige ideological parties to win the support of at least half the voters before being granted the opportunity to put their proposals into law. A Bill of Rights would

be at least a brake on the speed of removal of the protection given by the law to the individual. A reformed, wholly-elected House of Lords would be a counterweight to the excessive use of executive power by a Government whose support rested in the lower house alone.

But wait, many Conservatives will protest. None of this is really necessary. If we win the next election most of the ideological legislation enforced by Labour will be repealed—the Community Land Act, the National Enterprise Board and all the rest of it. Democracy will be restored. Thoughtful Conservatives will reject this view.

For a start, the prospect of a Tory landslide at any early election has already begun to recede; the opinion polls are telling us that the enormous lead over Labour recorded at the worst moments of the closing gloom of 1976 has been sharply reduced; while the better headlines of 1977 can do the Government no harm. The outcome of the next election, like its date, is still in doubt.

Even assuming that Mrs. Thatcher is returned to Downing Street, will the present threat to democracy be averted? Mr. Prior is not going to touch the closed shop; we have his word for that. The unions will be treated very gingerly indeed; that promise is already being made. And at the end of the day there will be another election—with a chance of power for what by then could be an even more determinedly Left-wing Labour Party (under Mr. Benn?). There are no prizes for guessing the year in which

that fateful vote could be counted.

In the unlikely event that the British electorate wants a truly authoritarian Government in the 1980s it will have one. You and I could not stop it. Meanwhile, we can try to make certain that such a thing does not come about as a result of an electoral accident, for that kind of accident—in which a small minority elects an unwanted Government—has happened

strong, for the two-party system (which alone can "justify" the traditional British method of first-past-the-post voting) no longer exists up there.

In a first-past-the-post election, with at least three, and possibly four, parties sharing the allegiance of the people, the vast majority of Assembly seats would probably be taken by whichever party was able to attract a quarter or third of the votes. On the pre-Christmas

showing that could be the Conservatives—although their votes are concentrated in the east and they could still fail to win many seats in spite of a lead in popular support. On present showing it could be the Tories or Scottish Nationalists; another time it could be Labour, even though it has to be said the logical action to take is to vote in favour of constitutional reform.

Even so, some may respond, that is very high-flown and far away from to-day's amehment, which provides for a particular form of PR for the Scottish and Welsh assemblies. There are two answers to this; the first has to do with the present Bill and the second with the wider issue. The case for PR in Scotland is particularly

For Scotland, therefore, any thing other than PR would be neither fair nor workable; only a diehard Westminster authoritarian could vote against it. Some of those MPs who acknowledge this and yet go on from there to the "realistic" conclusion that the great majority of their colleagues will even so reject the amendment might pause before the pre-Christmas following the crowd.

For the movement in favour of constitutional reform is growing. The Lords will almost certainly insist on a proportional representation amendment to the devolution Bill; that will be enhanced if to-day's vote in its favour is decently large (500 600?). The adoption of proportional representation in the Celtic assemblies will of course be used by proponents of the argument in favour of its use for election to Westminster, as will the logic for PR for direct election to the European Assembly. At the same time devolution itself is evidence of the head for a written Bill of Rights and a written agreement about the division of

powers between the centre and the regions. At the end of that road lies a written constitution. Meanwhile the Labour Left wants to abolish the House of Lords; defenders of democracy will want to put a wholly elected senate in its place. Such measures can only strengthen the rule of law; the debate between the Attorney-General and the Appeal Court judges last week was further evidence that under present arrangements the House of Commons is badly placed to act as a protector of the people. Every MP has a chance to help forward the long and complicated process of reform that might rectify that, by voting in favour of PR for the Scottish and Welsh assemblies to-day.

The purpose of the new review, says the council, "would be as expeditiously as possible to outline a plan to reconstruct our tax and social security systems to work in harmony that according to need, they give as well as receive." The council's idea is that "one basic means test of the kind now incorporated in the tax system would replace many, one payment either in or out of the Exchequer would replace the dozens and dozens of payments at present made to the Exchequer and even more administrative costs and give a system of social security "which human minds could comprehend and human hands control."

That is one route; the difficulty with it is that we have behind us generations of experience that teach that some people cannot be helped by giving them cash; they need more direct and personal care. No new Beveridge could get around that, although saying this is not the same as saying that the effort to produce as much simplification as possible would not be worth it. Another route, indicated by the consumer council's study of continental systems, is to move towards more genuinely insurance-based social security, although that would amount to a complete abandonment of British tradition in these matters. In any case, we will only get something sensible when all the major parties are obliged by a new constitutional system to talk more sense to one another, and in the rest of us.

MOST serious long-term reform in Britain will be impossible while the adversary system of politics is maintained by means of first-past-the-post voting for Westminster's parliament. That is why the latest attempt to draw attention to the need for a reform of our welfare state must be greeted with the sad resignation of those who know from experience that whatever happens, the Labour and Conservative parties will kick it about until it is unrecognisable.

Yet the National Consumer Council's call for a "Beveridge-type review" of all social benefits, published to-day, is understandable. The council lists no fewer than 45 national and local means-tested benefits from the provision of wages to meal-wheels, and makes the useful point that if the efficiency of most of these were measured according to standards used for most products or services their very reason for existence would be called into question.

English National Opera production of La Traviata, Coliseum Theatre, W.C.2. 7.30 p.m.

Royal Ballet dance La Fille mal gardée, Covent Garden, W.C.2. 8 p.m.

London Symphony Orchestra, conductor Aram Khachaturian, with Nicola Petrov (piano), play Khachaturian's Symphony No. 5. Piano Concerto and excerpts from ballet music, Royal Festival Hall, S.E.1. 8 p.m.

William Caxton Exhibition, British Library Great Russell Street, W.C.1 (until January 31).

"Unofficial" art from Soviet Union, ICA Galleries, The Mall S.W.1 (until February 27).

Letters to the Editor

Unpaid tax collectors

From Mr. R. Britton.
Sir—The 1976 Finance Bill contained provisions for the introduction of a system for individual insurance companies to collect premiums which qualify for tax relief, net of tax. The system is due to be implemented in the year 1979-80 and is expected by the Inland Revenue to achieve a saving of about 1,000 tax office staff.

The introduction of the system poses several serious problems for the industry which faces the burden of setting up new standing orders or direct debits with changed premium amounts. Not least of the problems is that as we begin 1977 the detailed requirements of the system have still not been announced.

One of the major companies has about 1.5m. direct debit cases and the cost of the clerical work involved is expected to be between £2 and £3 per mandate.

Even disregarding the future clerical burden of accounting for, and recovering, the tax amounts deducted, and the adverse effect on cash flow, the total cost to the industry in making the changeover is likely to amount to well over £20m.

It thus seems that the insurance industry is required to pay some £20,000 in order to reduce the Government's public spending by one civil servant. Another interesting comparison can be made: Government sponsored job creation programmes provide employment at costs up to about £1,500 per job. It seems that we could thus assume that the loss of one civil servant could finance 20 new jobs in industry. This is certainly a novel way of persuading the major investors to reinvest in industry.

Richard Britton,
Red Roofs, Templewood Lane,
Farnham Common, Bucks.

Working abroad and tax

From Mr. A. Jacobs.
Sir—The Government is being urged to restrict the Inland Revenue's proposal to restrict the 25 per cent. deduction to overseas earnings of someone who works abroad for a continuous period of 20 weeks or more. It is suggested that the Inland Revenue should be more generous in its tax treatment for employees resident in the U.K. who spend a great deal of their time travelling on business.

Reasons given for more favourable tax treatment are that it is very much in the national interest for employees to travel abroad on business and equally that such work is most onerous and disturbs family life. I can vouch from my own experience that this is true.

Yet should we not consider whether, for example, a salesman spending a great deal of time away from home and working in the U.K. does not suffer also the same disabilities, and can it not be claimed, for example, that a miner's work on night shift is both essential to the economy, extremely onerous and disruptive of family life?

There seems, therefore, to be absolutely no case whatever for especially favourable tax treatment for people travelling overseas on business to increase either exports or imports. If as an employer one finds that to travel frequently overseas on business is both necessary and yet hard, one must properly reward such employees with higher remuneration; this is surely no different from the just argument that miners, because of the arduous nature of their work, should receive more than the average industrial wage.

special tax treatment lies in the exorbitant rates of income tax charged at both ends of the earnings scale. To charge 33 per cent. of a person's salary on the upper income bracket is, of course, punitive, but not more so than to charge 41 per cent. income tax and national insurance on every £ of income of a single person earning more than £14 a week and a married person earning more than £21 a week. There are far too many arguments for special tax relief, whether on mortgage interest, bank interest, overseas earnings, car allowances, life insurance, etc., which are all required to offset the excessive proportion of Government revenue which is obtained from personal direct taxes as opposed to indirect and social security levies.

Anthony Jacobs,
20 York Terrace West, N.W.1.

The 'in-or-out' argument

From Mr. R. Colbran.
Sir—In all the recent correspondence on pensions there is one point about the safety net which has not been mentioned. At a very late stage in the passage of the Pensions Act, a provision was introduced that schemes which ceased to contract out would be protected against increases exceeding 12 per cent. per annum over the previous five years. This amendment was rushed through and subsequently discovered to be faulty. It was found that the protection only applied if the benefit were bought back from the Government and did not apply where the liability for all the benefits was retained in the scheme.

From Mr. Paterson's letters (last one January 18) one might infer that this point only affected insured schemes. In fact one can envisage many circumstances in which a privately invested scheme which ceased to contract out would want to retain all the liabilities and not pay State scheme premiums. I understand that the necessary amendment has been tabled to the Social Security (Miscellaneous Provisions) Bill which is at the moment in the Committee Stage in the Commons. If this amendment is accepted, it will remove one of Mr. Paterson's main worries.

R. B. Colbran,
6, Rommore Avenue, Croydon.

No practical help

From the Director General The British Security Industry Association.
Sir—I wonder if I might use your columns to draw attention to a quite extraordinary situation which the present Government allows to exist in my industry and possibly elsewhere.

It has been alleged that the Government is concerned about the plight of the unemployed—there are, after all, an extremely large number of such people, about 1½m. The more surprising, therefore, is the attitude of the Government towards the provision of worthwhile employment. In the past six months, the commercial and industrial sector has been obliged to cope with the introduction of the heaviest burden of employment legislation ever imposed by a British Government. Not only has this required an undue proportion of executive time to be devoted to the interpretation of legislation and the implementation of requirements but it has acted as a disincentive to the employment of miners in various capacities.

Yet when people requested practical help from this Govern-

ment, it is not forthcoming. In my industry, it sometimes happens that a security company, having found suitable people via Government job centres or employment exchanges, desires to give those people some basic training prior to offering put employment elsewhere within the industry, but discovers that the Department of Health and Social Security stops the payment of unemployment benefit—thus obliging the prospective employee to make the painful decision as to whether to prepare for a worthwhile job or remain unemployed.

Quite recently, the Secretary of State for Employment was asked if he would change the present position which permits training allowances to be paid to around 7,000 people annually who are completing training opportunities programme sponsored courses in construction trades, while excluding the eligibility to either training allowances or unemployment benefit to unemployed people who are completing vocational training outside the TOP scheme. Sadly, the Minister advised that he had no plan to extend the payment or to allow unemployment benefit to be made available to people who are undergoing vocational training. This seems an extraordinary approach.

Inflation accounting

From Mr. D. Ross.
Sir—Much of what I read and hear say two things to me with regard to the adjustment of accounts for inflation: we are unclear about our objectives, and many people are unsure about how to adjust accounts for inflation.

Our objective is to adjust accounts fully for inflation. We cannot achieve this by dealing with the items on which there is some agreement about the mechanics and deferring, or leaving to local decision the treatment of the more controversial aspects. In this way we only do half of the job, and the resulting accounts are open to ridicule. Many groups will not find the accounts of great value. Trade unions are particularly unlikely to accept them because in the case of many companies the inclusion of the benefit resulting from long term debt has been omitted.

I believe much of the reason for this unsatisfactory situation rests with the fact that the above objective is not properly understood and there is a lot of unclear thinking in the arguments. To make my own position clear on the most important woolly area, I believe that discussion should centre on how, and not whether, monetary items should be included. Accounts have not been fully adjusted until these are dealt with.

There have been many calls for an extension of the discussion period. I support this in the hope that this will enable discussion to move forward in answer to the question "How?" rather than "Dare we?"

David Ross,
127, Farnham Lane,
Farnham Royal,
Slough, Berks.

cost of mining increasingly inaccessible fossil fuels will probably outstrip their energy value to us before that time. Nuclear fuels will be extremely expensive, in short supply and a hazard to the future of mankind. Should we not therefore put our research resources into solar energy extraction, including harnessing wind and wave power. The capital cost will be enormous but the running cost minimal and the danger to the environment nil.

Sandwich students

From Mr. T. Jones.
Sir—An otherwise interesting careers article by Bryan Webster (January 15) suffered by omitting to mention the polytechnics in producing graduate managers for manufacturing industry and otherwise supporting the education debate.

As an executive in industry, surely Mr. Webster knows how much Britain's 30 polytechnics are doing to produce science and technology graduates to provide the expertise we so badly need? The polytechnics specialise in meeting the requirements of industry, often through the medium of sandwich courses.

There is the further advantage from the nation's point of view, that having maintained contact with industry, often with one particular firm, throughout his/her course, the sandwich student usually has a job to go to on graduation, unlike his full-time counterpart. So talent does not go to waste and the dole queue is not further stretched.

It was a little sorry to see that the article took a somewhat negative turn in its later stages. We can all quote examples of people in one sector earning more than elsewhere. Teachers in particular seem to be getting a bashing at the moment. But how many us (a) could really do the other man's job? (b) would really want it? So many "comparisons" do not compare like with like.

Let's let's all be more positive about striking about the other man and get on with producing the wealth necessary to get this country out of the red.

Tim Jones,
usine Drive,
Clifton Grove,
Nottingham.

From Mr. S. Pennell.
Sir—With reference to Mr. R. Redman's letter on accounting and inflation (January 19) and his reference to the causes of inflation, are not the following substantial contributory factors?

A continuous provision of an increasing standard of living by annual increments relative to age or length of service regardless of correspondingly increased productivity or responsibility. The annual wage negotiations by unions with industry resulting in increases in wage costs in excess of increases in productivity. The so-called social contract, cooked up by Mr. Jones, whereby virtually every member of a union received last year an increase of 55 a week, and will receive this year a further increase of 54 a week, irrespective of any increase in the production of wealth.

Apart from profligate spending by the Government, inflation will never be cured until the reward and the effort are reconciled, as is the case with most self-employed members of the community.

S. W. Pennell,
153, Fenchurch Street, E.C.3.

Profligate spending

From Mr. B. Horlow.
Sir—I feel that your correspondent on January 20 is also on the wrong energy road because coal supplies like gas and oil will be depleted by about the middle of the next century at the latest. In any case the

From profligate spending by the Government, inflation will never be cured until the reward and the effort are reconciled, as is the case with most self-employed members of the community.

S. W. Pennell,
153, Fenchurch Street, E.C.3.

To-day's Events

Provisional unemployment figures for January issued by Department of Employment.
President Giscard d'Estaing of France ends official visit to Saudi Arabia.
National Farmers' Union begins annual meeting, two days Central Hall, Westminster. Prince Charles attends NFU annual dinner, London Hilton, W.1.
Mr. Alex Jarratt, chairman and chief executive, Rees International, gives 1977 Lecture, "Printing and Publishing—the Economic Future," Stationers' Hall, E.C.4.
Miss Ferguson seeks writs in High Court against 379 employees for re-possession of offices and entrance gates at its Bann Lane, Coventry, plant.

CBI London and South Eastern Regional Council meets.
Mrs. Winifred Ewing, Scottish Nationalist MP for Moray and Nairn, addresses Tory Reform Group luncheon meeting.
Mr. Constantino Stancu, Romanian Deputy Minister of Foreign Trade and Economic Operation, speaks to London Chamber of Commerce and Industry on opportunities for British trade in Romania. Cafe Royal, W.1. 4 p.m.
Sir Robin Gillett, Lord Mayor of London, visits Customs and Excise, King's Beam House, Mark Lane, E.C.3.
PARLIAMENTARY BUSINESS House of Commons: Scotland

and Wales Bill, committee.
House of Lords: Criminal Law Bill, committee. Social Security (Contributions, Re-rating) Order, Town and Country Planning (Scotland) Bill, reading. Marriage (Scotland) Bill.
Select Committee: Nationalised Industries (sub-committee A). Subject: British Rail. Witnesses: National Freight Corporation.

COMPANY RESULT Houchin (half-year).

COMPANY MEETINGS Central Manufacturing and Trading, Savoy Hotel, W.C. 12. Davenport Brewery, Birmingham, 12.35.

EXHIBITIONS William Caxton Exhibition, British Library Great Russell Street, W.C.1 (until January 31). "Unofficial" art from Soviet Union, ICA Galleries, The Mall S.W.1 (until February 27).

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All of these securities having been sold, this advertisement appears as a matter of record only.

\$100,000,000

Kraft, Inc.

7.60% Sinking Fund Debentures due January 15, 2007

Goldman, Sachs & Co.

Bache Halsey Stuart Inc. The First Boston Corporation Blyth Eastman Dillon & Co.
Dillon, Read & Co. Inc. Drexel Burnham & Co. Hornblower & Weeks-Hemphill, Noyes
E. F. Hutton & Company Inc. Kidder, Peabody & Co. Kuhn, Loeb & Co. Lazard Frères & Co.
Lehman Brothers Loeb Rhoades & Co. Inc. Merrill Lynch, Pierce, Fenner & Smith
Paine, Webber, Jackson & Curtis Reynolds Securities Inc. Smith Barney, Harris Upham & Co.
Warburg Paribas Becker Inc. Wertheim & Co., Inc. White, Weld & Co. Dean Witter & Co.
Bear, Stearns & Co. L. F. Rothschild & Co. Shearson Hayden Stone Inc.
Shields Model Roland Securities Thomson McKinnon Securities Inc.
ABD Securities Corporation American Securities Corporation Basle Securities Corporation
Alex. Brown & Sons F. Eberstadt & Co., Inc. EuroPartners Securities Corporation
Robert Fleming Kleinwort, Benson Moseley, Hallgarten & Estabrook Inc.
New Court Securities Corporation Oppenheimer & Co., Inc. Piper, Jaffray & Hopwood
Prescott, Ball & Turben R. W. Pressprich & Co. SoGen-Swiss International Corporation
Stuart Brothers Tucker, Anthony & R. L. Day, Inc. UBS-DB Corporation
Wood, Struthers & Wintthrop Inc. Kredietbank N.V.

January, 1977

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INTERNATIONAL FINANCIAL AND COMPANY NEWS

Du Pont sales and profits on the rise

BY JOHN WICKS

ZURICH, Jan. 24,

HERE SHOULD be a gradual improvement in the business of Du Pont Chemicals in the year, with world sales approaching the \$10bn mark and earnings up on 1976 levels. This is stated here today by Edward R. Kane, president of the parent undertaking E. I. du Pont de Nemours and Co., of Wilmington, Delaware.

Within the coming few years, he said, there should be a turn to the profitability enjoyed in the 1960s, with net income of at least 8 per cent, on assets and at least 20 per cent on total equity.

Du Pont, whose detailed 1976 figures will be released after the New York market closes tonight, said worldwide turnover exceeded \$8bn last year. Earnings were up substantially from the depressed 1975 level at the second highest sum in the company's history but did not match 1973 records and their total was due primarily to inflation. The 1976 results were "still not satisfactory," said Kane, even though Du Pont earned a net return of almost 4 per cent on gross assets employed and 12 per cent on shareholders' equity.

Problems

Problems last year were rooted in the group's worldwide textile business, particularly in the cotton sector. While sales of man-made fibres accounted for out one-third of 1976 turnover, these products contributed only 7 per cent of earnings, with unsatisfactory price levels, most of all Du Pont's textile operations ran well below parity and losses were experienced in the third and fourth quarter. The company expects some improvement in sales and earnings this year but "it may be the early 80s before corporate earnings targets are reached."

Chemicals, plastics and speciality products developed very well in 1976, on the other hand, with turnover up considerably and profit development at least in line with capital expenditures. For the coming three years, Du Pont's capital expenditures are set at between \$2.5bn and \$3bn, with a "more emphasis" on improvement of existing facilities, currently running at about 70 per cent of capacity. The question of manufacturing and related costs, the major share capital spending will be in the United States.

Last year, foreign sales of the

Volvo report shows sharp final quarter earnings drop

BY WILLIAM DUFFLORCE

STOCKHOLM, Jan. 24

VOLVO, the Swedish car and truck manufacturing group, has announced an 11.6 per cent rise in pre-tax earnings in a preliminary report for 1976. Un-audited sales figures show a 15 per cent increase in group turnover to Kr15.7bn, (\$2.17bn), with the pre-tax profit coming out at Kr5.80bn, (\$800m), compared with Kr5.01bn for 1975. The parent company contributed Kr530m, of these earnings against Kr348m in the previous year.

Adjusted earnings per share are given at Kr15.40 which compares with Kr15 last year, Kr23.10 in 1974 and Kr34.20 in 1973. The pre-tax profit is equivalent to 3.7 per cent of turnover or exactly the same as in 1973.

The company warns that the 1976 account has not been closed and the final figures may diverge from those of the preliminary report.

The preliminary profits figure conceals a sharp drop in earnings in the last quarter to roughly Kr1.80bn, compared with Kr1.80bn in the second quarter and a first quarter earnings estimate of Kr1.62bn. At the three-quarter stage Volvo was showing an improvement in earnings of Kr1.42bn, compared with Kr1.75.

The profit plunge underlines the management's decision announced in December to cut back passenger car production by 15-20,000 during the first half of this year. Attempts to organise this reduction have already run into trouble with the unions and a dispute over pay levels during an extended winter sports holiday is being taken to the labour court.

U.S. COMPANIES

American Airlines record earnings

IN A PRELIMINARY report, American Airlines Inc. said that it had achieved record airline net earnings of about \$80m for 1976 but after giving effect to the Americans of San Juan Hotel, the company's net earnings were \$65m, compared with a net loss of 1975 of about \$24m.

American said 1976 revenue was just over \$2bn, a record and an increase of 17.4 per cent over the previous year.

BankAmerica results

BANKAMERICA Corporation fourth quarter operating earnings per share were 65 cents (60

EUROBONDS

IBJ bond arouses interest

BY TONY HAWKINS

STRONG investment interest is being reported for the Industrial Bank of Japan floating rate note issue currently on offer in the Eurobond market. IBJ is raising \$40m, over five years on a minimum coupon of 6 per cent. Interest will be 1 per cent above the 12-month London Interbank offered rate with Morgan Stanley International as lead manager.

It is significant that this issue appears to be so popular in the light of the relatively cool reception given to some other recent floating rate note issues. The Banco do Brasil floater, priced at par last week, has been trading at 97.5-98.1, while the French SNCF floater was traded yesterday at 98.1-98.2, also after being priced at par.

Indeed, all the indications are that this Japanese floater is proving more attractive than the much larger \$50m. Credit Lyonnais floating rate issue, also carrying a minimum 6 per cent coupon.

In the Deutschmark sector, the City of Bergen is raising DM50m, with the issue of 12-year bonds (average life of eight years) on a 7 1/2 per cent coupon. Berliner Handelsbank is lead manager and the bonds will be priced later this week close to par.

Also priced yesterday was the Banque Canadienne Nationale \$C30m, five-year issue. The coupon remains at 6 1/2 per cent, as indicated with the bonds priced at 99. The issue is understood to have been well oversubscribed.

Monday Friday

| Medium | Long | Convertible |
|--------|-------|-------------|
| 102.58 | 94.70 | 110.01 |
| 102.58 | 94.70 | 110.01 |

SELECTED EURODOLLAR BOND PRICES

MID-DAY INDICATIONS

| STRAIGHTS | Bid | Offer | STRAIGHTS | Bid | Offer |
|-----------------------------|-------|-------|-----------------------------|-------|-------|
| Alcan 5 1/2% 1988 | 104.1 | 104.1 | Alcan 5 1/2% 1988 | 104.1 | 104.1 |
| Australia 5 1/2% 1991 | 101.1 | 101.1 | Australia 5 1/2% 1991 | 101.1 | 101.1 |
| Banque Paribas 5 1/2% 1988 | 101.1 | 101.1 | Banque Paribas 5 1/2% 1988 | 101.1 | 101.1 |
| Can. Nat. 5 1/2% 1988 | 101.1 | 101.1 | Can. Nat. 5 1/2% 1988 | 101.1 | 101.1 |
| Credit National 5 1/2% 1988 | 101.1 | 101.1 | Credit National 5 1/2% 1988 | 101.1 | 101.1 |
| Deutsche 5 1/2% 1988 | 101.1 | 101.1 | Deutsche 5 1/2% 1988 | 101.1 | 101.1 |
| ECS 5 1/2% 1988 | 101.1 | 101.1 | ECS 5 1/2% 1988 | 101.1 | 101.1 |
| ETB 5 1/2% 1988 | 101.1 | 101.1 | ETB 5 1/2% 1988 | 101.1 | 101.1 |
| Europ. 5 1/2% 1988 | 101.1 | 101.1 | Europ. 5 1/2% 1988 | 101.1 | 101.1 |
| France 5 1/2% 1988 | 101.1 | 101.1 | France 5 1/2% 1988 | 101.1 | 101.1 |
| Germany 5 1/2% 1988 | 101.1 | 101.1 | Germany 5 1/2% 1988 | 101.1 | 101.1 |
| Italy 5 1/2% 1988 | 101.1 | 101.1 | Italy 5 1/2% 1988 | 101.1 | 101.1 |
| Japan 5 1/2% 1988 | 101.1 | 101.1 | Japan 5 1/2% 1988 | 101.1 | 101.1 |
| Netherlands 5 1/2% 1988 | 101.1 | 101.1 | Netherlands 5 1/2% 1988 | 101.1 | 101.1 |
| Portugal 5 1/2% 1988 | 101.1 | 101.1 | Portugal 5 1/2% 1988 | 101.1 | 101.1 |
| Spain 5 1/2% 1988 | 101.1 | 101.1 | Spain 5 1/2% 1988 | 101.1 | 101.1 |
| Sweden 5 1/2% 1988 | 101.1 | 101.1 | Sweden 5 1/2% 1988 | 101.1 | 101.1 |
| Switzerland 5 1/2% 1988 | 101.1 | 101.1 | Switzerland 5 1/2% 1988 | 101.1 | 101.1 |
| UK 5 1/2% 1988 | 101.1 | 101.1 | UK 5 1/2% 1988 | 101.1 | 101.1 |
| US 5 1/2% 1988 | 101.1 | 101.1 | US 5 1/2% 1988 | 101.1 | 101.1 |

FLOATING RATE NOTES

| STRAIGHTS | Bid | Offer | STRAIGHTS | Bid | Offer |
|-----------------------------|-------|-------|-----------------------------|-------|-------|
| Alcan 5 1/2% 1988 | 104.1 | 104.1 | Alcan 5 1/2% 1988 | 104.1 | 104.1 |
| Australia 5 1/2% 1991 | 101.1 | 101.1 | Australia 5 1/2% 1991 | 101.1 | 101.1 |
| Banque Paribas 5 1/2% 1988 | 101.1 | 101.1 | Banque Paribas 5 1/2% 1988 | 101.1 | 101.1 |
| Can. Nat. 5 1/2% 1988 | 101.1 | 101.1 | Can. Nat. 5 1/2% 1988 | 101.1 | 101.1 |
| Credit National 5 1/2% 1988 | 101.1 | 101.1 | Credit National 5 1/2% 1988 | 101.1 | 101.1 |
| Deutsche 5 1/2% 1988 | 101.1 | 101.1 | Deutsche 5 1/2% 1988 | 101.1 | 101.1 |
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| France 5 1/2% 1988 | 101.1 | 101.1 | France 5 1/2% 1988 | 101.1 | 101.1 |
| Germany 5 1/2% 1988 | 101.1 | 101.1 | Germany 5 1/2% 1988 | 101.1 | 101.1 |
| Italy 5 1/2% 1988 | 101.1 | 101.1 | Italy 5 1/2% 1988 | 101.1 | 101.1 |
| Japan 5 1/2% 1988 | 101.1 | 101.1 | Japan 5 1/2% 1988 | 101.1 | 101.1 |
| Netherlands 5 1/2% 1988 | 101.1 | 101.1 | Netherlands 5 1/2% 1988 | 101.1 | 101.1 |
| Portugal 5 1/2% 1988 | 101.1 | 101.1 | Portugal 5 1/2% 1988 | 101.1 | 101.1 |
| Spain 5 1/2% 1988 | 101.1 | 101.1 | Spain 5 1/2% 1988 | 101.1 | 101.1 |
| Sweden 5 1/2% 1988 | 101.1 | 101.1 | Sweden 5 1/2% 1988 | 101.1 | 101.1 |
| Switzerland 5 1/2% 1988 | 101.1 | 101.1 | Switzerland 5 1/2% 1988 | 101.1 | 101.1 |
| UK 5 1/2% 1988 | 101.1 | 101.1 | UK 5 1/2% 1988 | 101.1 | 101.1 |
| US 5 1/2% 1988 | 101.1 | 101.1 | US 5 1/2% 1988 | 101.1 | 101.1 |

D. MARK BONDS

| STRAIGHTS | Bid | Offer | STRAIGHTS | Bid | Offer |
|-----------------------------|-------|-------|-----------------------------|-------|-------|
| Alcan 5 1/2% 1988 | 104.1 | 104.1 | Alcan 5 1/2% 1988 | 104.1 | 104.1 |
| Australia 5 1/2% 1991 | 101.1 | 101.1 | Australia 5 1/2% 1991 | 101.1 | 101.1 |
| Banque Paribas 5 1/2% 1988 | 101.1 | 101.1 | Banque Paribas 5 1/2% 1988 | 101.1 | 101.1 |
| Can. Nat. 5 1/2% 1988 | 101.1 | 101.1 | Can. Nat. 5 1/2% 1988 | 101.1 | 101.1 |
| Credit National 5 1/2% 1988 | 101.1 | 101.1 | Credit National 5 1/2% 1988 | 101.1 | 101.1 |
| Deutsche 5 1/2% 1988 | 101.1 | 101.1 | Deutsche 5 1/2% 1988 | 101.1 | 101.1 |
| ECS 5 1/2% 1988 | 101.1 | 101.1 | ECS 5 1/2% 1988 | 101.1 | 101.1 |
| ETB 5 1/2% 1988 | 101.1 | 101.1 | ETB 5 1/2% 1988 | 101.1 | 101.1 |
| Europ. 5 1/2% 1988 | 101.1 | 101.1 | Europ. 5 1/2% 1988 | 101.1 | 101.1 |
| France 5 1/2% 1988 | 101.1 | 101.1 | France 5 1/2% 1988 | 101.1 | 101.1 |
| Germany 5 1/2% 1988 | 101.1 | 101.1 | Germany 5 1/2% 1988 | 101.1 | 101.1 |
| Italy 5 1/2% 1988 | 101.1 | 101.1 | Italy 5 1/2% 1988 | 101.1 | 101.1 |
| Japan 5 1/2% 1988 | 101.1 | 101.1 | Japan 5 1/2% 1988 | 101.1 | 101.1 |
| Netherlands 5 1/2% 1988 | 101.1 | 101.1 | Netherlands 5 1/2% 1988 | 101.1 | 101.1 |
| Portugal 5 1/2% 1988 | 101.1 | 101.1 | Portugal 5 1/2% 1988 | 101.1 | 101.1 |
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| Sweden 5 1/2% 1988 | 101.1 | 101.1 | Sweden 5 1/2% 1988 | 101.1 | 101.1 |
| Switzerland 5 1/2% 1988 | 101.1 | 101.1 | Switzerland 5 1/2% 1988 | 101.1 | 101.1 |
| UK 5 1/2% 1988 | 101.1 | 101.1 | UK 5 1/2% 1988 | 101.1 | 101.1 |
| US 5 1/2% 1988 | 101.1 | 101.1 | US 5 1/2% 1988 | 101.1 | 101.1 |

CONVERTIBLES

| STRAIGHTS | Bid | Offer | STRAIGHTS | Bid | Offer |
|-----------------------------|-------|-------|-----------------------------|-------|-------|
| Alcan 5 1/2% 1988 | 104.1 | 104.1 | Alcan 5 1/2% 1988 | 104.1 | 104.1 |
| Australia 5 1/2% 1991 | 101.1 | 101.1 | Australia 5 1/2% 1991 | 101.1 | 101.1 |
| Banque Paribas 5 1/2% 1988 | 101.1 | 101.1 | Banque Paribas 5 1/2% 1988 | 101.1 | 101.1 |
| Can. Nat. 5 1/2% 1988 | 101.1 | 101.1 | Can. Nat. 5 1/2% 1988 | 101.1 | 101.1 |
| Credit National 5 1/2% 1988 | 101.1 | 101.1 | Credit National 5 1/2% 1988 | 101.1 | 101.1 |
| Deutsche 5 1/2% 1988 | 101.1 | 101.1 | Deutsche 5 1/2% 1988 | 101.1 | 101.1 |
| ECS 5 1/2% 1988 | 101.1 | 101.1 | ECS 5 1/2% 1988 | 101.1 | 101.1 |
| ETB 5 1/2% 1988 | 101.1 | 101.1 | ETB 5 1/2% 1988 | 101.1 | 101.1 |
| Europ. 5 1/2% 1988 | 101.1 | 101.1 | Europ. 5 1/2% 1988 | 101.1 | 101.1 |
| France 5 1/2% 1988 | 101.1 | 101.1 | France 5 1/2% 1988 | 101.1 | 101.1 |
| Germany 5 1/2% 1988 | 101.1 | 101.1 | Germany 5 1/2% 1988 | 101.1 | 101.1 |
| Italy 5 1/2% 1988 | 101.1 | 101.1 | Italy 5 1/2% 1988 | 101.1 | 101.1 |
| Japan 5 1/2% 1988 | 101.1 | 101.1 | Japan 5 1/2% 1988 | 101.1 | 101.1 |
| Netherlands 5 1/2% 1988 | 101.1 | 101.1 | Netherlands 5 1/2% 1988 | 101.1 | 101.1 |
| Portugal 5 1/2% 1988 | 101.1 | 101.1 | Portugal 5 1/2% 1988 | 101.1 | 101.1 |
| Spain 5 1/2% 1988 | 101.1 | 101.1 | Spain 5 1/2% 1988 | 101.1 | 101.1 |
| Sweden 5 1/2% 1988 | 101.1 | 101.1 | Sweden 5 1/2% 1988 | 101.1 | 101.1 |
| Switzerland 5 1/2% 1988 | 101.1 | 101.1 | Switzerland 5 1/2% 1988 | 101.1 | 101.1 |
| UK 5 1/2% 1988 | 101.1 | 101.1 | UK 5 1/2% 1988 | 101.1 | 101.1 |
| US 5 1/2% 1988 | 101.1 | 101.1 | US 5 1/2% 1988 | 101.1 | 101.1 |

Source: Kidder Peabody Securities

Campbell drops Gringoire

By David Curry

PARIS, Jan. 24.

CAMPBELL SOUP of America has decided not after all to take control of the French biscuit maker Gringoire-Brossard because it is unable to guarantee the employment of all the 1,100 strong workforce of the French company.

It had been intending to rationalise production at its main biscuit company in Belgium and at the new acquisition (from the American Pillsbury Mills group).

The clause demanding maintenance of employment was a condition for the approval of the takeover.

Gringoire-Brossard will now have to look to a French solution for its future. C. N. Industries and L'Oréal-Lu Brun are the front runners.

After net earnings of around Kr120m, the Board proposes to maintain the shareholders' dividend at Kr8 per share. Final figures for 1976 will be announced on March 21.

Money rates soar in UAE bear squeeze

BY KATHLEEN BISHTAWI

DUBAI, Jan. 24.

CALL MONEY rates soared to 250 per cent from the opening 100 per cent in the first two hours of trading here this morning as money markets reacted to the UAE central bank's action late last week to curb speculation against the dirham.

Bankers reported an acute shortage of dirhams with foreign exchange dealers inundated at their homes by calls from institutions caught short. "They are begging for dirhams at any price," one dealer commented. "It's an incredible situation—I just don't know what will happen."

The crisis began on Tuesday when the central bank—the Currency Board—announced it was raising to 50 per cent its interest charge on banks' overdrafts. Then on Thursday when the dirham fell on foreign exchanges close to its official intervention rate, the Board sold dollars to remove almost \$50m dirhams from the market and raised the interest charge on the overdraft balances to 1 per cent a day for the next week.

This action provoked angry protests from Abu Dhabi to Bahrain from many of whom had been running very short positions and some of whom appeared to be having great difficulty squaring their positions. Other, more conservative, banks which retained dirhams are now making large profits.

A UAE Currency Board official commenting on the future said: "Many people have misunderstood what we have done. The banks are saying we created the squeeze. This is nonsense. Our only desire was to strengthen the

Societe Generale dividend cut

BY DAVID BUCHAN

BRUSSELS, Jan. 24

SOCIETE GENERALE de Belgique has announced a lower dividend on its 1976 profits, 9 Ffrs.15 net as against B.Frs.175 net the year before. Profits on the portfolio investments of Belgium's biggest holding company had been predictably hit by Government legislation freezing dividends from April to December last year. In 1976 they dropped to B.Frs.822m (about \$15m.) as against B.Frs.1.4bn. the year before.

The value of the group's portfolio has also dropped from B.Frs.830m, above book value in 1975 to B.Frs.750m. in 1976. Though analysts of the performance of those sectors in which the Generale has holdings will have to await detailed results, the 10 per cent of its portfolio that is in the depressed steel industry can hardly have been profitable.

HAWKINS AND TIPSON, LIMITED

INTERNATIONAL ROPEMAKERS

The results for the year ended 31st August:

| 1976 | 1975 |
|---|--------|
| Turnover | 13,400 |
| Pre-tax profits | 844 |
| Earnings per share | 6.00p |
| Dividend per share (including Tax Credit) | 5.50p |

While the Group's turnover rose by £1,355,000 this increase is entirely from the new acquisitions, and the profit is down by about £350,000 to £844,000. A number of factors have proved inhibiting: delay in coupling cost increases through the price cost has been the main factor, together with enormous increases charged by the Nationalised Industries, telephones, gas, electricity, and local authority rates. None of these expenses can be controlled except to a very minor extent.

ROPE DIVISION This is the area in which demand and therefore profits have been most affected. The heavy rope trades depend on the full employment of both general cargo ships and tankers which have also suffered in the general recession and particularly as a result of the heavy increase in oil costs. However, the situation is now improving. MARLOW ROPES is well known as the supplier of the best yacht rope for every purpose. Its overseas business is increasing steadily and we expect a highly successful year for this Company in 1976/7.

WIRE DIVISION continues to do well. It has integrated Smith Wires which is increasing its turnover, particularly export, and profits. All the established sections are running well and although the world wide demand for wire rope has slackened this has affected the Division very little.

During the last three years the Board has authorised capital expenditure of £2,800,000. With this behind us and better prospects ahead we are recommending the maximum permitted increase in dividend and, while forecasting (as the Treasury has found) a hazardous business, we expect profits to be over the million mark again in 1976/7.

J. E. HAWKINS, Chairman

This announcement appears as a matter of record only

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US \$50,000,000 5 Year Loan

guaranteed by

Trafalgar House Investments Limited

to assist in the purchase of 10 refrigerated motor vessels

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FINANCIAL TIMES SURVEY

Tuesday January 25 1977

Spanish Industry

The pangs of rebirth

By Roger Matthews
Madrid Correspondent

POLITICAL EVOLUTION and industrial development are inextricably linked in any country, but rarely with the intensity that they will be in Spain this year and for the foreseeable future.

With the international spotlight focused so strongly on the reactions to the death of General Francisco Franco in November 1975 and the tentative steps now more positively rooted in attempts to evolve from dictatorship to a form of democracy, it is perhaps not surprising that what made Spain news during the 1960s and early 1970s—its emergence as a major industrial nation—should at least temporarily have become of lesser significance.

But, of course, the two issues cannot be taken separately and the performance of one can both stimulate or restrict progress in the other. Democracy in Spain stands a better chance because of the country's industrial strength and its growing dependence on other Western nations; yet equally failure to equip and prepare industry for the parallel effects of changes in the social and economic system might also pose a serious threat to the eventual establishment of what

the government calls a "return to popular sovereignty."

From the late 1950s until the end of 1975, Spain enjoyed, and sometimes suffered, a period of tremendous industrial growth which transformed the country from one with a primarily agricultural base to one that now has a powerful manufacturing sector. The general buoyancy of other Western economies, the government's liberal attitude to foreign investment, the ready supply of a well disciplined and inexpensive workforce eager for the benefits of a consumer society, and the absence of democratic institutions that can militate against almost uncontrolled expansion, combined to produce real annual growth rates that only twice during this period dipped below 5 per cent.

It became fashionable among government ministers to refer to the "economic miracle" and to compare Spain's growth in the West to that of Japan's in the East. Politically, the word "prosperity" was added to the years of "peace" that General Franco had brought to Spain since the catastrophe of the 1936-39 Civil War which had left the country close to economic and industrial bankruptcy.

In the busy days of the 1960s not too much attention was paid to the basis for the country's new "peace and prosperity" while the headlong rush into mass tourism even pushed the balance of payments into healthy surplus and allowed successive rises to the level of reserves. But by the second quarter of 1973 it was already clear that the economy was badly overheating and that dampening measures would have to be taken—a decision that was taken by that autumn's Middle East war.

However, for historical political reasons the then Government did not admit to reality without a struggle, and for at

Spain is experiencing dislocation in its chosen transition to democracy, a change which is already affecting investment, productivity, labour—in fact most of its society. It is having to rely on international goodwill in coming to terms with these problems.

least the first half of 1974 the effects of economic depression and the successive rises in the price of crude oil were scarcely allowed to register on the performance of the industrial sector. While other members of the OECD immediately adopted measures to restrict oil consumption and to adjust to the downturn in international trade, the Spanish authorities continued to give the appearance of believing that the new world economic conditions were little more than a temporary blip which would soon pass. As a result Spain was relatively late into recession and is therefore certain to be slower in recovering from it, even without the series of other factors that have since come to bear on the situation.

Factors

These other factors can be roughly divided into two, the economic and the political, although there is, of course, considerable overlapping. On the economic side, the dual effect of the oil price increases and the recession in most major economies, pushed the Spanish balance of payments strongly into deficit and forced basic questions to be asked about the Madrid Government's ability to take corrective measures. It also exaggerated the already serious imbalance between the country's propensity to import and the relative lack of goods to export. Last year Spain imported over twice as much in value terms as it exported, while, at the same time,

invisible earnings from tourism, workers' remittances and long-term capital flows made a relatively smaller contribution to bridging the gap.

As imports tend towards being rather inelastic and would be likely to show a fairly strong upward tendency during a period of positive economic revival, future Governments will undoubtedly be looking to stimulate the exporting potential of manufacturing industries. A number of economists outside the Government have long been urging moves towards a more basic restructuring of industry that would seek to provide more of the goods of the necessary quality to compete in international markets and especially would prove attractive to the oil-exporting nations.

However, Spanish products must also compete on price terms which highlights another structural deficiency. Partly due to political reasons, but also due to the country's commercial system, inflation in the past 12 months has again moved significantly ahead of most of Spain's main trading partners and will probably not be brought down towards more manageable levels until there is a popularly elected Government prepared, at least initially, to force a general tightening of belts. The present wages policy allows for increases equal to the cost of living rise in the past 12 months, plus 2 per cent. Effectively this means built-in wage increases of between 20 per cent, and 25 per cent, even if they could be properly policed.

As it is those workers in large-scale industry tend to get more because of their bargaining weight and many of those in the mass of small and medium-sized companies do comparatively less well. Government Ministers will admit privately that with a balance of payments deficit last year of over \$4bn, an inflation rate of about 20 per cent, and unemployment moving towards 6 per cent, of the active workforce there is an urgent need for action.

At this point Ministers claim that they do not have the political weight to impose solutions, and certainly not the political willingness just a few months before the country's first general elections since the mid-1980s. The political issues are many, ranging from the crucial question of business confidence, through trade union freedoms to the much discussed possibility of achieving a social pact that would both re-distribute and restrict income levels.

Although many leading industrialists would argue strongly that Spain has a bright economic future there is no denying that confidence, especially as measured through investment decisions, is at a low ebb. The change from the Franco era, with its special blend of authority, self-interest, and laissez-faire for those in privileged positions that achieved its own special mode of operation, to the unknown but suspected dangers of a democracy is obviously unsettling.

For the major banks, which are suspected of directly or indirectly controlling around

40 per cent. of Spanish industry, there is the disturbing element of Left-wing discussion of the role of nationalisation in the economy. For some leading figures in State-run companies, often the cosy niche provided for ex-Ministers, there is the threat of the wind of efficiency. And for the truly professional industrialist and the multinational companies operating in Spain there will be anxious months ahead when they come to balance the wisdom of their original investment decision and to review both the prospects for domestic growth and for better access to the Common Market through eventual Spanish membership.

Adaptation

The success of political transition in Spain will in no small measure be due to the speed with which managements can adapt to it, and nowhere more so than in the field of labour relations. The lack of political freedom under General Franco was partly compensated for by relative security of employment that made it difficult for employers to shed labour, although militants could be dealt with fairly ruthlessly. The illegal labour unions that were pursued and their leaders jailed up until 14 months ago are now emerging strongly into the light and seem bound to be legalised before too long. How they will be allowed to operate remains largely a question for the newly-elected Parliament, but in the inevitable political competition for membership and the Communist Party's eagerness to demonstrate its

industrial weight, there is certain to be heavy pressure on managements that are often unskilled and certainly inexperienced in the more delicate forms of industrial relations.

The evidence of the past six months has not always been particularly encouraging, especially in the public service sector where the absence of workers' rights to hold meetings and the willingness of the authorities to employ riot police has added to the store of ill-will. However it seems that there is no way in which the vertically-organised "sindicatos" that under Franco brought together managements and workers under Government direction, can survive even in a heavily reduced and modified form. Yet if there are to be free trade unions, then presumably employers have to be given the right, in the interests of industrial efficiency, to reduce over-staffed plants and negotiate productivity deals.

Considerable labour mobility, and the necessary Government aid to promote it, is going to become of mounting importance if the country is to undertake any more positive industrial restructuring both to meet the challenge of the current account deficit and the officially stated aim of belonging to the EEC. This mobility may also need to take into account the social problems posed by the geographical imbalance of heavy concentrations of industry in the Basque and Catalan regions and around Madrid which has left other areas poorly served and with per capita incomes sometimes less than half that of their wealthier brothers.

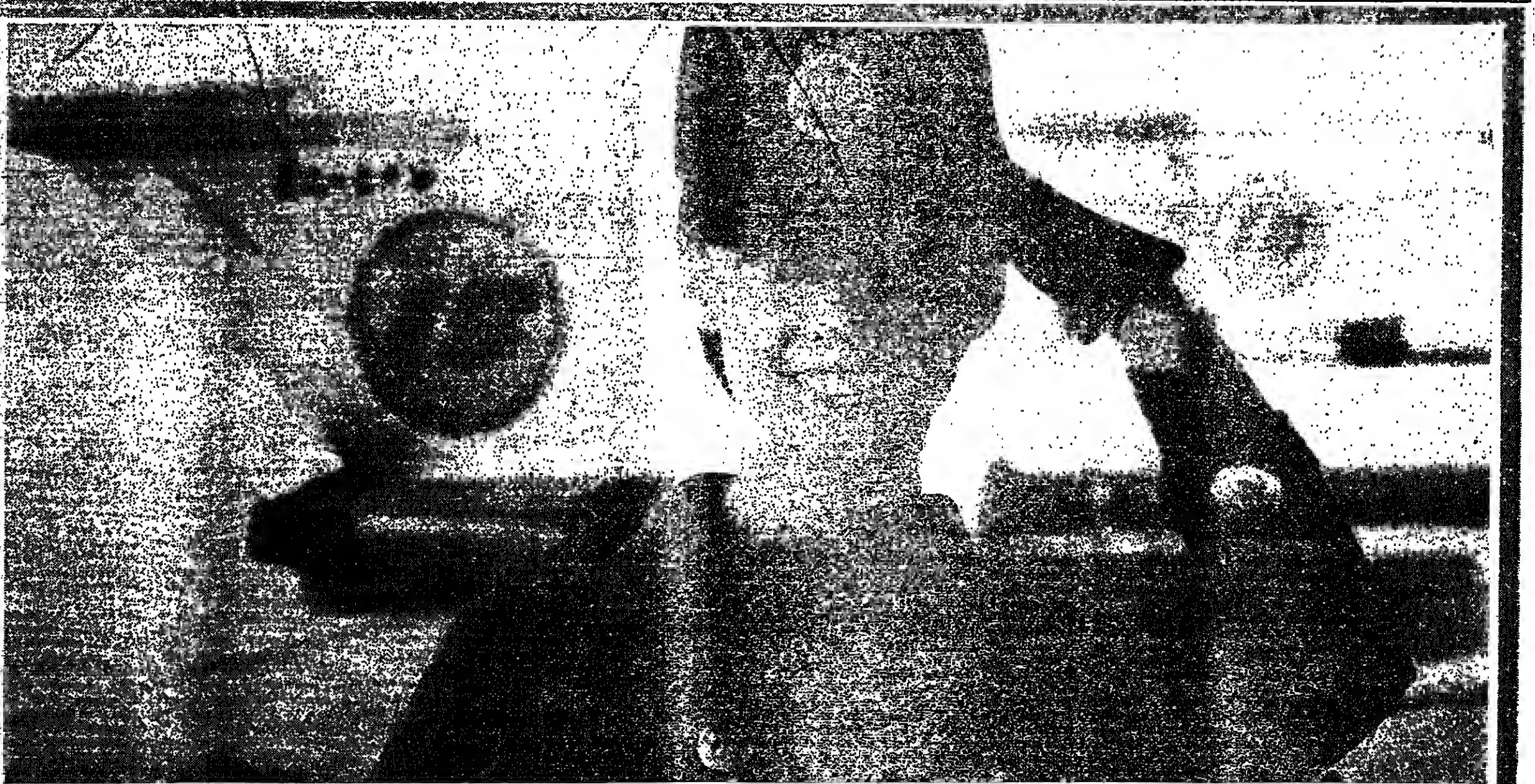
The new parliament will give a more vigorous voice to the regions, both those that wish to regain the pre-Civil War control they enjoyed over their own affairs and those that rightly feel that they have largely missed out on the industrialisation process. In this context a rapid political solution to the

unrest and violence in the Basque provinces would be especially beneficial because of the repeated effect on industrial production of strikes that have solely political aims.

During the present period of political flux and until such time as a democratically chosen Government has had time to study the situation and formulate a new industrial policy Spain is obviously going to be heavily reliant on international goodwill and more concrete forms of assistance. On the one hand this will obviously mean access to foreign loans to prevent the danger of a too sudden application of brakes that might thrust the country deeper into recession, and, on the other, practical advice on establishing different forms of democratic institutions, especially in the trade union field.

Individuality

However, it must also be remembered that the Iberian Peninsula is rightly famed for its individuality and that the democratic process, like its industrial progress, will not be based on any existing Western model. For foreign companies considering coming to Spain as a result of the even more liberal foreign investment legislation now forthcoming, it would be advisable not to be too startled by any apparent lack of logical progress but to hold firmly to the probability that despite all the problems the country has nowhere to go but towards the mainstream of Europe. It may be some while before Spain can begin to think of achieving the growth rates anywhere near those of the 60s, but on the best of political scenarios within three years the nation might be back on the road towards more solidly-based expansion. If, in the meantime, democracy fails then economic forecasting as with many Spaniards' aspirations will revert to the murky depths of the crystal ball.

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SPANISH INDUSTRY II

Ailing economy needs direction

THERE IS a wide degree of agreement about the serious state of the Spanish economy. But according to Prime Minister Adolfo Suarez, an almost as wide divergence of opinions about how the problems should be tackled. In the field of economics there is nothing new about that, but what distinguishes Spain from most other members of the OECD is that conflicting advice has been used as a reason for inaction, whereas political fear is probably a stronger root cause. The resultant drift, marked by regular changes at the Ministry of Finance and a startling absence of Ministers with any form of economic training, has steadily exacerbated the dangers posed to the stability of the economy by the repeated rises in the price of crude oil imports following the Middle East war in the autumn of 1973 and the parallel recession which was then beginning to make itself felt in many Western countries.

The balance of payments swung from surplus into serious deficit, inflation received a new upward push, and unemployment began to emerge as a major problem. While there was nothing unique about this set of circumstances it was accompanied by a steadily weakening growth rate and a government policy that seemed primarily based on the hope that Spain's main trading partners would at any moment begin to lift themselves out of recession.

Recent policy statements from the U.S. and Japan have again raised hopes that reactivation may finally be under way, but it is also recognised that Spain's structural faults are now of a magnitude that requires serious consideration over the medium and long term. Some economists are arguing that the economic model that brought the country an average real growth in Gross National Product of 7 per cent. in the 14 years before 1973 is now obsolete and that until this is finally understood by government there can be no hope of sustained recovery. Much of this argument is based on the evolution of the balance of payments. Since 1959 when indus-

trialisation, fuelled by more liberal foreign investment regulations, really began in earnest the country has run a balance of trade deficit. Only once during the 1960s was there a current account surplus, and only twice was there an overall balance of payments surplus. And this despite strong net inflows of long-term capital with the entry of many foreign companies into the market.

Reserves of convertible currencies and gold hit a peak of over \$1.5bn. in 1964 but ended the decade with just over \$1.2bn. The purple years of the early 1970s with the swift climb of tourism as a major foreign currency earner—it alone more than cancelled out the trade deficit in 1971—plus the mounting remittances from Spanish workers abroad not only pulled the current account into substantial surplus but also allowed large sums to be added to the reserves.

Changes

These reached an all time peak of nearly \$7bn. in 1973, at that time considered to be almost excessive for a still developing nation that maintained some of its industries behind the shelter of high tariff and quota barriers. Since then the picture has changed dramatically. In 1974 the current account deficit was \$3.1bn., the following year \$5.5bn. and in 1976 government sources say that it was in the region of \$4.3bn. This latter figure has come as a nasty blow to the Government, especially as the former Minister of Finance, Senor Villar Mir, had forecast less than 12 months ago that it would fall to below \$3bn.

In the absence of any new Government initiative the forecasts for this year are scarcely more encouraging due to the inevitable political uncertainty of the coming months, the further increase in the price of oil announced by OPEC, and the apparent inability of the strongest members of the OECD to expand their economies significantly.

It is also difficult to see how Spain is going to make any immediate impression on the

trade deficit where exports now account for less than half of imports. This huge gap is to an extent bridged by an current account by the contributions of both tourism and workers' remittances from abroad but they too have decreased as a result of the recession.

During the first nine months of last year tourism earned Spain \$2.4bn., a fall of just over 13 per cent. over the comparable period of 1975. In the peak year of 1973 tourists brought the country nearly \$3.5bn., since when there have been three years with inflation well into double figures, an indication of the true real loss to the overall balance of payments.

Despite bullish noises from Government departments it is difficult to see tourist arrivals increasing this year and at this stage bookings from Britain, for example, are significantly down. Similarly until there is a positive pick-up in the demand for labour, especially in West Germany and in France, or an increase in workers' remittances can be anticipated with perhaps a stronger decline as new emigration becomes even lower.

Levels of inflation in Spain have also made foreign trips, especially to shop in the U.K., more attractive to the wealthier middle class so the net balance on tourism is likely to be further reduced. All this makes the need to stimulate export performance even greater and there are signs that the 10 per cent. downward readjustment of the peseta against most leading currencies nearly a year ago did have a salutary if rather temporary effect. Since then the peseta has been allowed to ease slightly but the real argument now taking place is whether there should be an abrupt formal devaluation of rather more than last time. The Bank of Spain and Ministry of Finance are wavering between the school which says that devaluation is pointless until the country has the products to take advantage of a cheaper peseta and that meanwhile it would only serve to increase inflation, and the school which demands a devaluation of around 20 per cent. in order to act as a sharp psychological shock to a nation

whose senses have been dulled for too long by Government promises that all is well, or will be shortly.

But in order just to maintain the competitiveness of goods in international markets it seems inevitable that the peseta will have to drop steadily in value against most leading currencies, if only to reflect the difference in inflation rates between Spain and most other industrialised nations. At a time when most of Spain's competitors have been waging a more or less successful fight against inflation, the Spanish rate as measured by the cost-of-living index has again increased so that the country nearly heads the OECD league table. During the past 12 months the index has risen by close to 20 per cent., up by 3 per cent. over 1975 which was considered to be exceptionally high because of the effect of the oil price increases still working themselves through.

Restraints

Tentative Government efforts to establish a wages policy have scarcely been ambitious with the present regulations allowing for pay deals up to 2 per cent. above the recorded level of inflation over the previous 12 months. Attempts to regulate prices have also met with very limited success and it was particularly ironic that during one period items that were subject to special Government control rose more rapidly in price than those that were not. A new list of commodities has now been drawn up in what appears to be a more determined effort, but the lack of an effective machinery to police the policy plus the confusion that will surround the forthcoming elections and establishment of a new Parliament does not presage great success.

The country's heavy dependence on imported raw materials and particularly on oil, combined with the weakness of the peseta, also means an almost built-in inflationary factor which will be difficult to reduce. Probably the most the country can hope for in the next 12 months is a reduction of 4 per cent. in the cost of

living index, which will still leave Spain uncomfortably in advance of its rivals.

Of course inflation, if not at the present rates, is something Spain has lived with for many years. However it was then combined with prodigious annual increases in GNP whereas for the past two years the economy has scarcely grown at all—less than 0.5 per cent. in 1975 and perhaps 1.5 per cent. last year. That there has been any growth is almost entirely due to the gentle upswing in exports and the still quite buoyant demand for some consumer goods.

Meanwhile investment, on which the hopes that the economy has finally bottomed out must rest, is understood to have shown another decline last year in the order of 1.5 per cent. compared with the fall of more than 3 per cent. the previous year. This does not bode well for 1977 and investment intentions as measured by the Ministry of Industry have yet to show a more positive trend. Probably many major investment decisions will now await the results of the general elections and the composition of the new Parliament, but presuming these are welcomed by the business community, then there could be a spurt in the second half of the year.

From the point of view of employment, investment has never been more vital. Despite

the relative difficulty of declaring workers redundant, unemployment is approaching 800,000 or nearly 6 per cent. of the active workforce. There are substantial differences in the two sets of official figures published, but it is widely thought that if the only partially employed agricultural workers were taken into the account together with the number of women who have given up searching for jobs the total would be close to 1m. The tendency is also upwards with what is a predominantly young population providing a large batch of school-leavers every year and the country no longer able to export unemployment as it did in the 1960s to more prosperous nations.

Already it is causing social problems with unemployment reaching over 10 per cent. in the south of the country emphasising the strong imbalance in industrial development. Combined with the rise in unemployment there has been a reduction in overtime working and in the number of people who do two or more jobs, thereby according to some Government officials, tending to reduce the number of industrial stoppages. Certainly what had been forecast to be a "hot" labour autumn turned out rather milder.

While growth in the economy will be essential to control the rise in unemployment, such pro-

jections as have been made for the rest of the decade show that it has to be carefully controlled and directed to prevent an even more intolerable situation arising with the balance of payments. In the Bank of Spain's annual report last year it was demonstrated that annual growth rates of much more than 3 per cent. would push up the current account to levels that would be difficult to finance.

Although Spain's foreign debt level has not yet reached really worrying proportions it can be expected that creditors will before long begin to impose conditions on the conduct of the financial policy. Depending on the source of information, the present debt figure is in the region of \$11bn., while the reserves have dropped to about \$5bn. The biggest loan achieved last year was the \$1bn. provided by an international consortium of banks that was arranged following the visit of King Juan Carlos to the U.S.

Loans

Other loans are now understood to be in the process of negotiation and both Prime Minister Adolfo Suarez and Minister King are due to pay a series of visits soon to the Middle East where they will be looking also to promote trade deals in a belated effort to offset the increases in the price of oil. It is also being argued that

if the Western world wishes to see democracy established in Spain then it must be prepared to underwrite the attempt that is being made at the moment, and this is certain to cost many more billions of dollars.

No precise figures are available on the amount of money that has left the country illegally since the death of General Franco but is not thought to be a alarming. However, it is something the Bank of Spain will be constantly trying to monitor and the number of prosecutions for currency smuggling offences have stepped up sharply.

Faced by such a general panorama—current account deficit of over \$4bn., inflation at 20 per cent., unemployment around 6 per cent., and scarcely any growth in GNP—it is not surprising that the present Government came to the conclusion that any remedial action would be politically highly unpopular. But it is largely the result of the unwillingness of Governments to act for the past three years that has led to the present situation and will make the medicine that much more unpalatable when it finally comes to be applied. It is certainly not the best of inheritances for what may be the first democratically elected Government Spain has seen for over 40 years.

Roger Matthews

Industry waits for better times

FOR THE PAST 12 months Spanish industrial companies have in general just been trying to hold on and await the first signs of reactivation. There is a widespread feeling, most marked in official circles, that once confidence begins to return industry will begin to pick up quickly and that this five out of the seven would have nothing left to launch after the end of the year. The Government has announced that it will be placing orders of 1m. tonnes to hold on and await the first signs of reactivation. There is a widespread feeling, most marked in official circles, that once confidence begins to return industry will begin to pick up quickly and that this five out of the seven would have nothing left to launch after the end of the year. The Government has announced that it will be placing orders of 1m. tonnes to hold on and await the first signs of reactivation. 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GROWTH IN SPAIN

● FACILITIES FOR FOREIGN INVESTMENT

It is obvious that Spanish economic development during the past fifteen years has been attained through an increasing process of integration between Spanish and the World's economies, and as part of this process foreign investment in Spain has played a crucial role.

In effect the three main pillars of Spanish economic policy which has been used for the past two decades have been the consequence of a total flexibility of the economy in order to adapt it to the schemes of a market economy, the maintaining of a realistic rate of exchange and its handling according to International Monetary Fund regulations as well as foreign investment as a support of the economic expansion process.

Foreign investment has made it possible to obtain the additional amounts of capital needed in order to achieve the forecasted rates of development, simultaneously with the income for foreign payments required to offset our trade balance which was strongly influenced by the rapid growth process, and, last but not least, it has also supplied the technology needed to improve business methods and production processes.

With a climate of freedom for the exercise of their economic activities, foreign corporations have obtained during the last years satisfactory levels of Spanish foreign trade yields in a market with a great dynamic growth. In this economic climate, the total amount of foreign investment has been very important, especially direct investments, namely those

that materialise in the control of Spanish companies by foreign capital, which has amounted to an annual figure between 300 million and 400 million dollars and have contributed as a principal element to the favourable course of the Spanish economy. At the same time, this important flow of capital serves both as a receiver of investments and also for new investors, as a valid reference in our market.

The wish to attract foreign capital has not changed in the government's declarations insisting in the function that is being left for foreign capital in Spanish economy. To this effect liberal and wide legislation allows participation of foreign capital without government intervention up to 50 per cent. of the total capital of the company and there is also quite a liberal system granting authority for higher percentages. The latter is easily obtained.

On the other hand, growth expectations for Spanish economy are reasonably good: there is still an abundant supply of labour, fairly well trained, or with easy training capability, productivity increases of the Spanish economy which stand well over the OECD average still have great possibilities for improvement and, finally, internal demand in rapid evolution offers an interesting market.

If we add to this, as figures show, the country's great possibilities as a platform of concurrence for third markets, we can have an idea of the attraction for foreign investment that Spain maintains.

● OVERSEAS TRADE EXPANSION

Growth in Spain in recent years was brought about by a remarkable expansion of Spain's foreign sector. Imports in 1959 amounted to 8 per cent of GNP. Last year this figure nearly doubled (15 per cent.). Other items have followed the same pattern. Tourism, for instance, leaped through the sixties to levels that would have aroused incredulity only a few years before.

The fast rate of growth has only been possible thanks to the avidly needed purchases of foreign goods by domestic industries. Economic growth thus explains the upward trend of imports. The removal or reduction of tariff barriers to trade has played an important part in this. Spain, a member of most international economic institutions, has made clear to the EEC its intention to become a full member as soon as possible, considering the present 1970 Treaty, for political as well as for economic reasons.

The build-up of new industries has made Spanish products highly competitive everywhere. Many would be surprised to know that in 1975 only 22.1 per cent. of Spanish exports were made up of agricultural goods, 23 per cent. of consumer goods, 21.5 per cent. of investment goods and the other 33.6 per cent. of raw materials and semi-manufactured commodities.

Spain is no longer an agricultural country. Food is no longer the basic export product, as is still widely presumed. Ten years ago it accounted for 48.7 per cent. of total exports, and investment goods for only 10 per cent. The widespread re-adjustment in trade structure stands as the best proof of Spain's economic

vitality. A growing number of customers all over the world rely on Spanish technology and craft. This breathless growth rate has put the trade balance under severe strain. Until the oil crisis, exports, tourism and migrants' transfers covered import payments comfortably, thus leveraging the balance of payments on current account.

Heavy reliance on imported oil, as it lacks energy resources, has made Spain's Trade balance in 1975 the world's most unfavourable (\$7.3 billion), despite the 7.3 per cent. growth in exports, amid a general trade slump.

The overall surplus on invisible earnings was not enough to outweigh the deficit on visible trade, the current balance showing a \$3.5 billion deficit in 1975. Continuation of a trade deficit was thus foreseen and fashioned a widespread conviction that the Peseta was overvalued. The recent devaluation has set Spain on the road towards external balance in the medium term. In the short term the situation seems quite manageable, as the Official reserves amount to more than \$5 billion. Spain will finance its next current balance deficits without any stress.

The favourable trends already shown by the western economies, will help Spain to level its external balance, as foreign customers and visitors will see their purchasing power increased by the economic recovery. Becoming an EEC partner will also help by giving Spanish products free entrance to a much larger market. Western Europe would also gain a dynamic member, thus resting on a proof of Spain's economic

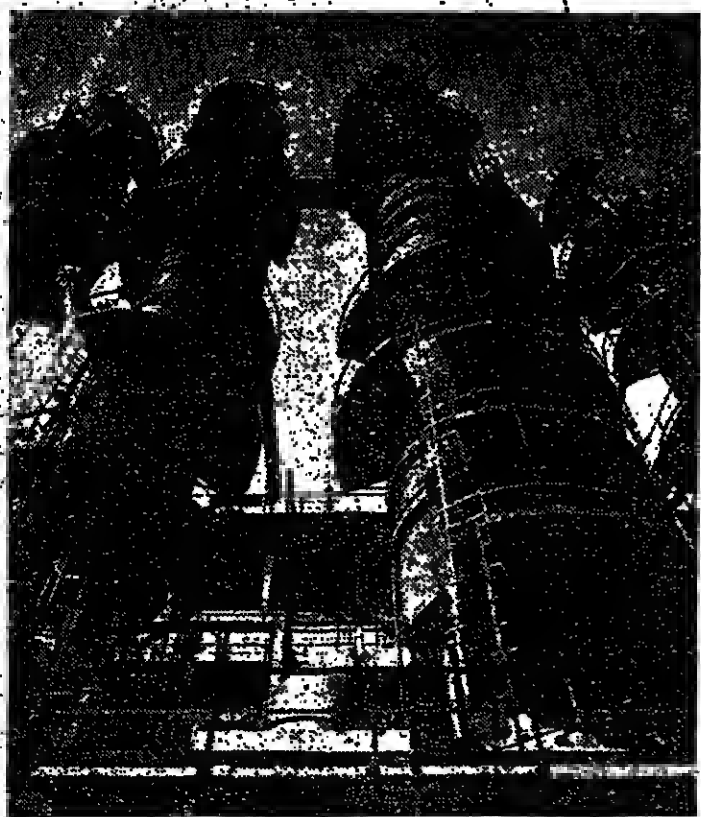
● HIGH ECONOMIC GROWTH RATE

Spain is one of the countries which has experienced a high economic growth in the last fifteen years. The annual rate of development during this period has been 6.7%, remarkably higher than those of France, West Germany, and even the United States. This country, with a privileged geographical position, between two continents, and with access to three great seas, enjoys a great potential for development, with its abundant labour force and its capacity for investment and rapid assimilation of technological progress.

This profound process of economic growth is evident in the evolution of the main indicators. In 1960, Spain's per capita income was slightly over \$300 and in 1975 this figure has grown to \$2,000. One of Spain's most important economic resources is its human capital; its population enjoys improving qualifications and productivity. The Spanish population has experienced strong expansion, showing an increase of 16% during the last fifteen years, therefore contributing to an important rejuvenation of its potential labour force which, in spite of the considerable and constant increase of employment levels, could be completely absorbed only with difficulty in the future.

The surprising development of Spain has consisted not only of a quantitative growth of the main economic magnitudes but also a profound transformation has taken place in the production system. This becomes evident in the evolution of the relative sectors of production from different economic areas. Agriculture has slowly yielded its traditionally important role in favour of industrial production and services. Capitalisation of agrarian production and the constant movement of the labour force towards other sectors has improved productivity in the land and has brought about a change in the economic profile of Spain. From being a country of great relative agrarian output she has become a strongly industrialised nation. Agriculture in 1960 accounted for 23% of its GNP and to-day it is only 10%.

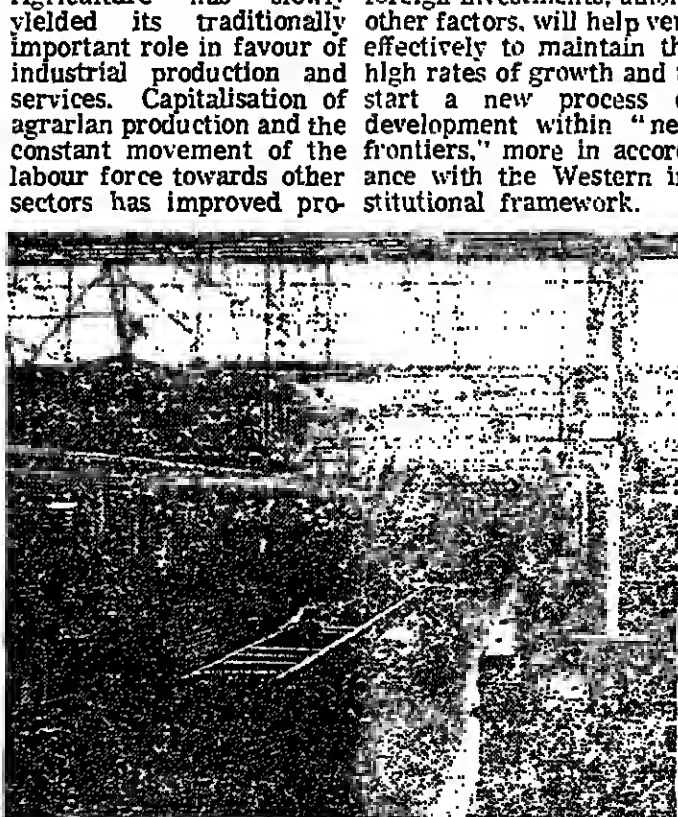
It is well known that to-day Spain is one of the world's biggest industrial countries. Industrial growth has experienced one of the greatest increases this century, comparatively higher than those shown by countries with really outstanding industrial progress like Italy, West Germany or France, and even comparable to Japan's remarkable process of industrialisation. In the services field, Spain has also reached considerable expansion helped to a great measure by the impact of tourism. This feature is well highlighted by the number of visitors from abroad which has increased from six million in 1960 to more than 30 million in 1975 (Spain's population is thirty-five million). In the same way as the boom in the Spanish economy took place after overcoming isolationism and with the departure from the so-called economic and political autarchy at the beginning of the sixties, the start of a wider process of incorporation into Western institutions taking place in Spain can now lead to a new stage of growth on a quite different and stronger base. More active competition with European markets, extension of commercial activities in international markets, introduction of new management techniques, attraction to foreign investments, among other factors, will help very effectively to maintain high rates of growth and to start a new process of development within "new frontiers," more in accordance with the Western institutional framework.



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THE NEED to adapt Spain's energy policy to mounting industrial and domestic demand and to the realities of the crisis imposed by the successive rises in the price of crude oil has been one of the main preoccupations of the economic ministries during the past year.

Against the background of a current account deficit for last year of over \$4bn, it can be seen why the country urgently needs to moderate its consumption of energy, very difficult to achieve in what is still a developing country, or to find indigenous lines. Just over 15 years ago oil supplied only 4.8 per cent of the country's total energy consumption, followed by coal with 34.1 per cent, and hydro-electric power with 24.1 per cent. Last year these figures had changed dramatically with oil leaping to 68 per cent, coal slumping to 16 per cent, hydro-electric power down to 10.7 per cent, and with nuclear power (2 per cent) and natural gas (1.3 per cent) nudging into the picture.

In the short-term it will be very difficult to alter these basic proportions, although by the middle of the next decade the outlook is likely to be altogether brighter. Unfortunately for the country its two traditional sources of energy supply, coal and hydro-electric power, have both diminished. Set a production target of 17m. tonnes last year, an increase of 18 per cent, over 1973, the coal industry fell short by some 3m. tonnes. Throughout the 1960s coal output fell until it dropped below 13m. tonnes in 1973. Of this, nearly 7m. tonnes was coal, nearly 3m. anthracite and the remaining 3m. tonnes lignite. With the steel industry still recently in a phase of rapid expansion, this led to a serious shortfall in the domestic out-

put of coking coal, forcing steadily increasing imports from the U.S. and Poland. Last year it is estimated that Spain imported about 4.2m. tonnes of coking coal, another serious drain on the trade balance.

Plentiful

In common with many other countries, the relative cheapness and plentiful supply of oil during the 1950s led to a steady running down of the coal mining industry as it found itself increasingly unable to compete in price terms. Although Spain has been seeking to re-launch the industry it has also been faced with heavy investment costs at a time of growing competition for whatever funds are available and a series of aggravating labour disputes which have seriously affected production schedules. Because of the parallel difficulty of modernising many Spanish pits, mainly centred in the Asturias region, it would appear unlikely that coal can be thought of as even temporarily taking the pressure off the mounting imports of crude oil.

The other indigenous source of energy, hydro-electric power, has also been suffering, primarily as a result of last year's drought. Output from this source was down 16 per cent, last year on 1973, but with dams now holding substantially more water than they were at this time 12 months ago there is good reason to hope for an improvement during the coming months. With electricity playing such a vital role in Spain's overall energy consumption—it supplies a far greater proportion than in most other industrialised nations—this will only help to meet what is expected to be a further

increase in demand this year. During 1974 the production of electricity rose by almost 10 per cent, despite the fact that industry was working well below capacity. This reflects the continuing strong increase in demand for domestic uses, a trend that will probably continue both as a result of the relatively buoyant sales of electrical equipment for the home and because of the Government's plan of taking electrical power supplies to those rural areas which have so far been missed out.

Any increase in industrial activity will also act as a sharp boost to consumption, though at best this is unlikely to become apparent until after the summer. In the document prepared by the Spanish Government for the international banks that contributed to last summer's \$1bn loan it was stated that recent discoveries of oil in the Bay of Biscay may amount to 500m. tonnes which would be sufficient to provide up to 50 per cent of domestic requirements for a period of 12 to 15 years. The document's authors added that according to reports the flow of oil from this source would

reach a peak by 1984. The degree of caution in the wording reveals the lack of certainty which accompanies the statement.

The Government is planning large increases in electrical generating capacity and over the next seven years has a \$6bn. scheme that will add 130 per cent to thermal energy sources, 50 per cent to hydro-electric units and, by far the biggest 500 per cent to nuclear output.

The huge push into nuclear energy represents very substantial investment calling for 22,000 MW of installed capacity by 1985. So far there are three small stations operating, the first of which came into service in 1968, the other two following in 1971. In the next 24 months four more units are due to start producing followed by five more in the period between 1981 and 1983. Another 12 sites have been chosen for the remainder of the programme, the total investment figure for which is likely to be \$9bn. and may even exceed that due to the rapid escalation of costs.

This is a far more ambitious programme than many more industrially advanced countries have contemplated. Of course,

all the technology has to be imported even though the government is fast developing production facilities for the construction of components inside Spain. Westinghouse is well ahead of General Electric as the principal supplier with Kraftwerk Union recently having managed to get into the market. However the very tight programming set by the government seems increasingly likely to run into delays for a number of reasons. First, the basic financial factor. However "necessary" the nuclear programme might be thought to be, funds are becoming increasingly tight and face the threat of being diverted towards maintaining employment in other industrial sectors.

Influences

Secondly, democracy will make Spain a less ideal climate for the nuclear technologists to work in. Already there have been fairly vocal protests by local communities at the siting of some of the plants, and this can only increase with the acquisition of greater political liberties. Thirdly, a new Government is bound to take a fresh look at the country's energy

policy and may well decide to slow down the rate of nuclear advance for both economic and social reasons. Much may also depend on the political favour of future cabinets.

The present Minister of Industry, Señor Pérez de Arce, aware of some of these trends warned last October that the topic of nuclear energy had to be studied in cold reality. "If you turn back on it would be to renounce progress for our country and for our standard of living." Though his view may be slightly overstated, given that demand for electricity could well reach a slower rate of increase more rapidly than is presently believed, there is little doubt that at present it checks one of the few hopes of checking in the longer term the mounting bill for oil imports. Natural gas, while arriving in increasing quantities during the next few years, will make much more than a dent in anticipated energy needs. What Spain needs industrially, economically and politically is significant quantities of her own oil. With that almost everything else would fall into place.

R.M.

Growing labour pains

IN THE field of Spanish labour relations there is still everything to be done. While some parts of industry are certainly comparable, in terms of equipment and productivity, with their European competitors there are huge strides to be made in the interaction of workers and management if the democracy is not to prove as much a handicap as an asset.

Since the end of the Civil War in 1939 labour relations, as they are understood in most Western countries, have not existed in Spain. There have been a few partial exceptions, particularly in smaller companies, but as far as the state was concerned the banning of all independent workers' organisations meant that disputes should not arise, or where they did, they were solved in the last resort by force. Strikes were illegal and although towards the end of General Franco's rule they steadily increased in number they were not a problem that caused any serious disruption.

This, of course, proved highly attractive to many multinational companies especially as in the early days of Spain's big thrust forward labour was also significantly cheaper than in many more developed nations. The Spanish labour force also justifiably earned the reputations of giving a good day's work and of being largely free from erosive arguments over demarcation or other inter-union related issues.

The legal framework remains basically the same to-day, with workers and management grouped together in the "vertically" organised syndicates that are effectively under government control. The national syndicate organisation is a vast bureaucracy with nearly 35,000 employees and was one of the political cornerstones of the Franco rule. However, it is fast crumbling, with its demise being hurried along both from within the government and from the outside where the still illegal labour unions are daily becoming a more potent force. Because the country is in political transition it is inevitable that there should appear to be a lack of direction, and nowhere is this more apparent than in the relationships between workers and management.

The official communist and majority line, however, favours "new style" trade unions by which it recognises the possible plurality of labour organisations. In other words it sees a role for the other three principal unions, the General Workers Union (UGT), which is closely aligned to the main socialist party (PSOE), the CNT that has its roots in Catalan anarchism, and USO which is also socialist-oriented but claims not to have any clear link to a political party.

Apart from these unions there are a number of purely regional organisations which have a certain force, especially in the Basque and Catalan provinces. A co-ordinating committee formed by members of the workers commissions, UGT and USO was set up last year, but attempts at forming a single unified structure never got beyond the initial stages. These three organisations, together with the CNT which has a strongly independent line, are all engaged in membership campaigns that some industrialists fear could cause disruption if they become excessively competitive.

The split within the workers commissions has already had its effect on the public sector, and these internal conflicts might become more pronounced during an economic crisis and until such a moment that the mass of the workforce can see clearly the options that are open. Probably less than 5 per cent of the active workforce of over 13.5m. is affiliated to a union and the resistance of the authorities to allowing mass meetings during industrial

disputes can be a positive aid to the more militant factions. With an important part of public opinion apparently behind the liberalising attempts of the Government the situation might seem ripe for negotiations with the unions that would give them legality and concessions on a number of other points in return for a commitment to the conduct of labour disputes that would establish the principle of the secret ballot conducted by an independent body. Ministers believe a large part of the workforce to be much more conservative than the leadership of the main unions, but if they miss the opportunities that now offer the situation could become increasingly more difficult.

Majority

Of the four main, illegal, but usually tolerated unions organisations, the Communists effectively control the largest, the Workers Commissions. This organisation has been rent by internal divisions during the past few weeks, much along the lines of the Portuguese argument following the military coup in 1974, only in Spain's case it is the Communist Party which is the more moderate force. Under the umbrella of the workers' commissions, as it existed until recently, there were several political currents that only began to surface under more liberal government policies.

Those minority currents to the left of the Communist Party, which very much follows the line of Euro-Communism, demand a single unitary structure for all workers and say the Communists have abandoned the original principles of the workers' commissions. The political force behind this argument is basically the Workers' Revolutionary Organisation (ORT) and the Spanish Workers Party (PTE). The effect of it was first seen during last autumn's postal strike when there was a sharp and bitter split on a return to work, thereby lengthening the dispute by several days.

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Some, presumably, future government is also going to have to tackle the potentially explosive issue of security of employment. Under the Franco regime it was difficult to sack a worker who had not committed what was basically a political offence. Troublesome workers were thus dealt with and even if an official labour tribunal said a man had been dismissed unfairly, management could still choose to pay compensation rather than re-employ him.

Twice in 18 months this law has been changed, first to oblige employers to follow the labour tribunal's ruling, and then to revert once more to the original sense of the legislation but with an added clause that workers could now be contracted for six-month periods without any legal responsibility on the part of the employer. This last item was included because it was thought it might help to combat the rising level of unemployment, the causes of which are, of course, far different. However, the phase of evolution will begin to give up the present relative security of employment without a fierce struggle, even if changes months are going to be very important in setting the pace for these developments.

But as Señor de la Mata is known to recognise, the single

biggest danger to a satisfactory form of labour relation in Spain is ignorance. This can come in several forms. First, the ignorance that makes some employers believe that the law can solve everything; pass a new act and all will be well. The message that some members of the cabinet are now trying to get across is that flexibility is perhaps the most valuable asset for the smooth ahead. "Secondly, the ignorance that will not admit the reality of the new labour unions and the demise of the syndicate system. Thirdly, the ignorance that believes Spain can grow industrially while remaining politically substantially different from its main trading partners. And fourthly, the imposed ignorance of the past 40 years which has meant neither employers nor workers ever entered a dialogue that was meant to provide concessions and reach agreement.

Alternatives

Unfortunately no one has too much time in which to learn and, as there will be no formal classes, the only alternative is trial and error. Therefore there will be plenty of errors. But the prizes for even a limited form of success could be enormous. The sight of moderate wages agreements being reached through bargaining, of understanding being shown of opposed points of view, if efforts being made to persuade peacefully could give industrial confidence a tremendous boost. Even the sight of a government minister meeting the leadership of the illegal unions recently was enough to lift a few spirits. After the General Election in far different. However, the phase of evolution will begin to give up the present relative security of employment without a fierce struggle, even if changes months are going to be very important in setting the pace for these developments.

R.M.

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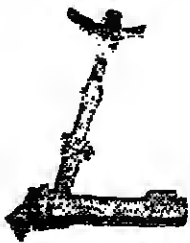
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Scope for foreign capital

SPAIN'S RAPID growth in the last 15 years (the fastest in Western Europe) has meant an even more rapid growth in her foreign trade. Imports in 1975 reached \$15,500m, and although this represented only about 15 per cent of GNP, a lower proportion than for most European countries, there can be little doubt of the importance of foreign trade to the economy. Spain's pronounced dependence on imported energy resources, principally oil of which Saudi Arabia was the largest supplier in 1975, because of the impetus to Spanish growth, has her own rapidly rising manufacturing exports, and

because of continued reliance on imports for much of the equipment and technology required to build up her own economy.

Why then is Spain not yet well enough known to British exporters? Part of the answer may be that Spain is not yet as easy a country to export to as the U.K.'s EEC partners, since she retains some of the administrative framework associated with a controlled economy.

Thus a number of products remain subject to quantitative limitations by global quota, the level of tariffs and of supplementary domestic taxation on most manufactured imports is

considerably above EEC levels, and Government measures (additionally important in a country where the State's major direct stake in many industries often makes it the prospective customer) are frequently designed to encourage the purchase of domestically-produced, rather than imported, goods.

Moreover, some companies have been reluctant to become too involved in Spain because of uncertainties over political development. But the sophisticated and better informed firms are aware that the barriers will fall as Spain becomes more integrated with the rest of Europe, and a number of big investors, especially American and German—for example Ford, Siemens, General Electric—but also some major British firms, have long been heavily involved in Spain. Although the Spanish economy is currently showing little if any real growth, there remain plenty of opportunities for foreign industrialists.

Some U.K. companies have been successful and the U.K. ranked fifth as supplier to Spain in 1975, after the U.S., Saudi Arabia, West Germany and France, with a total in 1975 of £335m, exports had a 5.3 per cent share of the Spanish market for imports.

Spain's imports have continued to rise in 1976, and the U.K.'s share of them has risen in line, so that U.K. exports

should top £400m. In 1976, it is expected that through discussions between Spain and the EEC the tariffs Spain applies to exports from the U.K. (plus pumps, valves, generators, mechanical handling machinery, excavating and earth moving machinery, computers, electronic equipment and machine tools) are all important. In general the more advanced the technology, or the more complex and large-scale the requirement, the greater is the likelihood that Spain will need to import it, and it is in these fields that U.K. exporters make the bulk of their sales.

The composition of U.K. exports shows the importance of chemicals and engineering products which between them account for over half the total. Consumer goods are as yet less significant, although Spain as a whole is a good market for such traditional products as whisky and fine cloths and clothes, as a number of successful sales promotions have shown, because the quota system significantly restricts Spain's own consumer goods industries from fully open competition in these fields.

Changes in the EEC relationship should however help exporters in these fields more than others, and already the duty-free markets of the Canaries and the North African ports of Ceuta and Melilla are exceptions to these quota restrictions, all of them good markets for U.K. processed foods, clothing and even motor cars.

Exporters should treat the Canaries, Ceuta and Melilla as separate for their marketing purposes. But in Peninsular Spain the bulk of exports are iron and steel, chemicals, such

as china clay and gold, and above all the products of the mechanical and electrical engineering industries. Motors, pumps, valves, generators, mechanical handling machinery, excavating and earth moving machinery, computers, electronic equipment and machine tools are all important. In general the more advanced the technology, or the more complex and large-scale the requirement, the greater is the likelihood that Spain will need to import it, and it is in these fields that U.K. exporters make the bulk of their sales.

Growth

This gives some idea of where the opportunities for British exporters already are. Starting from a modest base, with income per head of only \$230 in 1960, Spain has grown to be a significant industrial power (the 10th in the world on some counts), and her needs from overseas suppliers are increasingly similar to those of other industrial countries. In some fields, particularly shipbuilding and nuclear power, where Spain is the third largest power in Europe, she is near the top in world terms, and across the board, in steel, chemicals, vehicles and now an increasing spread of more sophisticated secondary manufacturing industries, impressive strength has been built up. This

does not yet make her as open a market as the U.K.'s main EEC partners. A look at Spain's tariff structures, and the framework of regulations in which many of her industries operate, shows that once Spain has productive capacity in a particular field, protection is provided for it to flourish and, if possible, dominate its own markets and expand into exports too.

Mining of coal and other minerals is benefiting both from consciousness of Spain's energy deficit and from the rationalisation of mining policy likely under a law published in January. British exporters of mining equipment, traditionally quite strong, will have new opportunities. Similarly, as Spain seeks to diversify its energy sources, not only through the nuclear power programme already mentioned, but also through offshore exploration and the import of liquid gas, there are good opportunities there. In the field of welfare services, the largest opportunities for suppliers are unquestionably in the medical field, where the social security system has a large programme of hospital development and interest in sophisticated equipment is high. Education would come next with scope for suppliers of audio-visual aids.

Agriculture too merits more attention: Spain is largely self-sufficient in tractors, but still needs equipment for soil pre-

paration, harvesting and irrigation and livestock management.

Preferences

Investors from the U.K., though some are long established and others, such as Lamin, and ICI have built up very large and successful interests in Spain comparatively recently, have on the whole been less prominent. Yet direct investment perhaps with a Spanish partner, may often be a highly satisfactory way for a U.K. firm to establish itself in the Spanish market, through a direct presence in Spain to manufacture some parts of its range, with others still being supplied from the U.K.

This may often be the best way to cope with the mixture of tariffs, quota protection and preference for local supply, and yet make good profits. Another option, if direct sales are ruled out, would be to manufacture under licence, but, as in most countries nowadays, it is not always possible to win permission for a level of royalties sufficient to provide the desired return.

The Spanish authorities, while naturally ensuring that Spain's interests are protected by requiring guaranteed levels of investment and job creation, take a positive attitude to foreign investment. But here, as in most aspects of business in Spain for the foreign company, it is important to check carefully whether official permission is needed for a company's planned activities. This applies to investment, technology transfer, and indeed to the provision of services by consultants of any kind.

For the firm which is selling direct from the U.K., the key requirements seem to be value for money (price is often the key factor), good delivery, modern stylish design and vigorous marketing effort, the latter a point on which U.K. producers are most often criticised here. Other points would be as for most markets: careful attendance to agency relationships, correspondence in Spanish if possible, since only top executives and engineers—and not all of them—speak English, and good service back-up.

Among other agencies available to help the U.K. businessman in Spain (including representatives of several U.K. banks and a number of major accountancy firms), the commercial department of the British Embassy has staff able to give advice at Barcelona, Bilbao, Las Palmas and Vigo as well as Madrid itself.

But above all, the U.K. industrialist, despite Spain's rapidly (but positively) evolving political climate and current economic recession, should simply be aware of the value of including Spain in his plans. The international credit rating of the country remains high, the political evolution means that such barriers as remain between Spain and the rest of Europe are steadily being reduced, and Spain, increasingly prosperous, is a country which requires to support their standard of living, only two hours flight from London. Many major British companies have realised this and are now taking a fresh look at Spain.

By a correspondent

Banks need to adapt

ONE SEEMS to have much sympathy for bankers and right here the headlines have been appearing in the local Press to bait the local financial community. Bad for the economy, good year for the banks, they proclaim in slight variations. Perhaps of some multinational companies might be taken compliments because in Spain, the past 12 months there has been a notable increase in business failures and bankruptcies, although not yet of varying proportions, and a far greater number of companies which have either gone into the red or suffered sharply reduced profits.

That is only to be expected as the economy, so thoroughly used to a healthy annual rate growth, has suddenly found itself in a pit without an easily reached bottom. The really trying thing for Spain would be if the banks failed to make their profits, given their centrally placed role and the direct and indirect stake they maintain in the industrial sector. And more so because the helpful official control on interest rates for transactions during periods of less than years, which still forms the basis of Spanish banking, was largely based on the plentiful supply of cheap credit, strongly interventionist, at least in so far as ground rules were concerned, enabled low rates of interest to be paid to the small and effectively banned obvious fiscal competition on the banks. Because the interest rate is by nature very flexible—the country has a high savings ratio—the system worked well, if in a slightly inequitable manner as explained officially by the banks to catch up with the industrialised world, a system was also of considerable benefit to the banks, not least on the proceeds of the loaning of the expenditure effort which is inevitable in an open market.

Approach to industrial banks was often influenced by the fact that they had very different methods of assessing a company's creditworthiness and were favoured six-month or loans. As long as they see that a company was to stay solvent for the year they appeared to be. Or alternatively, and as the banks would take a company thereby ensuring a regular credit flow and mutual treatment at times of money.

Important, but unknown, large of the big banks' profits come from their financial participations, and a reason for believing that 1976 very few of them have enjoyed a real increase. Additionally, in the past the banks have been full advantage of relaxation of the rules about opening offices which has led to a tremendous rush to open branches, partly due to the fact that offices had tended in the past to reflect on the level of industrial weight of a region in line with population movements from the rural areas to large cities. However it proved a costly business, only at a time of sharply inflation and a mounting of other demands on a resources.

Profound changes are due Spanish capital market, if meet the challenge of an more sophisticated economy. Although there is distance from parts of the world in permission granted for foreign banks to establish themselves in there now seems little to halt it. At least half a century is knocking at the door of the President of Venezuela the memory of the

Privileged

Some sectors of industry are also anxious to see changes in the government agencies that act as a vital link in the so-called "privileged circuits" whereby deposits are taken from the savings banks and private banks and re-lent at preferential rates to those concerns deemed to be of special importance. These circuits tend to benefit the big and powerful and ignore the small but perhaps more modern and dynamic.

The savings banks, with their strength in rural areas and an increasingly modern management which has competed successfully with the big commercial banks in the battle for deposits, also wish to shed some of the shackles of bureaucratic control. Over 60 per cent of their deposits are subject to Government direction, a situation which they claim militates against efficiency and especially against a balanced industrial development.

Of more immediate concern is the state of the three stock exchanges which have not only failed to realise their potential as a source of long-term finance for industry, but have been seriously affected by the combination of economic downturn and political uncertainty. The General Index of the Madrid Exchange finished last year more than 28 per cent down and has already shed another 5 per cent in the opening weeks of 1977. On the admission of the Governor of the Bank of Spain, Senor Lopez de Letona, the authorities intervened on several occasions last year in a bid to halt downward slides and restore a degree of confidence, but after every spurt the Index slipped back again.

Part of the problem, of course, is the historical attitude of investors towards the stock exchanges which tended to be thought of as places to make a quick capital gain, as indeed they were during the halcyon days of the 1960's and early 1970's.

Obviously the next two years are going to be extremely difficult for the financial and industrial community in Spain as changes will be mooted, and probably made, when confidence and the economy in general are at their lowest points for a long time. However, it will be vital to maintain a degree of confidence and for all the country's financial institutions there must be a sign of the carrot as well as a touch of the stick.

RM

We are present in the most important sectors of Spanish industry

INI, the Instituto Nacional de Industria, is one of the fundamental bases underlying Spanish industrial expansion, which has attained rapid advances in a developing country.

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The INI has extended its activities outside Spain, not only by exporting goods which amount to over 18% of the national total, but also by investing and exchanging technology and experience.

All this converts it into the most important Spanish industrial corporation and places it among the main European industrial groups.

Petroleum and Petrochemistry. INI invests directly in petroleum exploration inside the country some 15 million dollars. HISPANOIL, INI's petroleum exploration abroad, more than 40 million dollars yearly. ENPETROL controls 40% of the refining capacity of the country.

Gas. BUTANO distributes 100% of the domestic and industrial consumption of butane and propane. ENAGAS is responsible for the introduction of natural gas in Spain on a wide scale.

Electric Power. Companies of the group produce 14% of Spain's electric power.

Trucks and Buses. ENASA makes 60% of the national production of trucks and 77% of buses. The companies of the INI group produce 60% of the light industrial vehicles manufactured in Spain.

Automobiles. SEAT makes half of the national production of tourist cars.

Shipbuilding. AESA, BAZAN and ASTANO build 90% of the national total. Spain's shipbuilding ranks fifth in the world and is also her prime export.

Industrial Equipment. INI participates in companies, such as LA MAQUINISTA, which builds turbines, railway material and other large mechanical transformations.

Air Transport. The companies IBERIA for international and domestic air transport and AVIACO, fundamentally dedicated to "charter" traffic transport. Respectively, 2.5 and 1.4 million passengers are handled annually.

Fertilizers. ENFERSA produces 39% of the nitrogenous fertilizers in the country.

Paper Pulp and Paper. 46% of all the wood chemical cellulosic pulp made in Spain is produced by ENCE.

Mining. ADARO is the company in Spain considered the most important for mining prospecting and engineering and the various companies of the group produce 62% of the coal, 41% of the lignite and 41% of the potash mined nationally.

Metal and Steel Industry. ENSIDESA, the largest steel mill in the country, produces 45% of Spain's steel and ENASA, 57% of her aluminium. AESA manufactures the total production of forging and heavy casting.

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Optics. ENOSA makes precision optical and educational material.

Other Sectors. INI also participates in the fields of FOOD PRODUCTS with meat industries as well as canned fish and vegetable industries, DATA PROCESSING (hardware and software), WEAPONS (production and research with the most up-to-date technology), HOTELS, including historical buildings of unique architectural value converted into magnificent hotels, CRAFTSMANSHIP, in which ARTESPANA promotes and sells at both national and international level the rich Spanish craftsmanship. INI is a shareholder of the BANCO EXTERIOR DE ESPAÑA, which deals mainly in foreign trade, of the BANCO ARABE-ESPAÑOL and in various companies with investments in foreign countries, for which reason INI can be considered as the most important Spanish multinational corporation.

For further information please contact its Directors who will inform you about who can do business with the largest Spanish industrial corporation and how it can be done.



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Motors in good form

THE LONG process of adopting the Spanish motor industry to the competitive pressures of the wider European market began in earnest last year with the emergence of Ford as a major new local manufacturer.

Ford brings to Spain a car—the Fiesta—which was conceived as a product suitable for any market in Europe. It is made on the kind of scale, achieving the level of manufacturing economies, which are familiar in most developed motor markets, but are as yet new to the highly protected Spanish industry. And most important of all, Ford has brought in its train a new set of regulations for the industry which encourage car exporting and begin to open the way to car and component imports.

As yet these developments are at an early stage. But they clearly imply a gradual breaking down of the trade barriers created by the late General Franco between Spain and the rest of Europe. Behind these

| VEHICLE PRODUCTION | | | | | | | | | |
|--------------------|--------|---------|---------|---------|---------|---------|---------|---------|--------|
| 1975 | | 1974 | | 1973 | | 1972 | | | |
| Cars | CVs | Cars | CVs | Cars | CVs | Cars | CVs | | |
| 13,121 | 2 | 30,763 | 386 | 43,318 | 530 | 34,199 | 264 | | |
| 66,655 | 6,679 | 76,097 | 8,671 | 84,510 | 7,181 | 62,962 | 5,026 | | |
| 92,782 | 18,167 | 69,671 | 21,707 | 52,098 | 20,837 | 41,567 | 16,269 | | |
| 192,759 | 13,225 | 166,771 | 16,627 | 166,003 | 15,671 | 126,491 | 12,250 | | |
| 328,806 | 3,372 | 361,272 | 3,423 | 358,504 | 2,649 | 335,340 | 3,098 | | |
| | | 8,356 | 9,177 | 6,808 | 6,602 | 6,002 | 5,640 | | |
| | | 5,642 | 7,437 | 6,602 | 6,602 | 6,602 | 6,602 | | |
| | | 13,565 | 13,773 | 12,328 | 11,220 | 11,220 | 11,220 | | |
| | | 24,559 | 26,517 | 23,136 | 17,690 | 17,690 | 17,690 | | |
| | | 2,151 | 2,675 | 2,230 | 1,587 | 1,587 | 1,587 | | |
| | | 11,601 | 9,800 | 8,604 | 8,425 | 8,425 | 8,425 | | |
| | | 10,821 | 12,657 | 9,011 | 7,187 | 7,187 | 7,187 | | |
| Total | | 696,124 | 118,040 | 704,574 | 132,840 | 706,433 | 115,587 | 690,559 | 94,658 |

Source: Agrupación Nacional de Fabricantes de Automóviles y Camiones.

moves lies a basic shift in Spanish thinking in favour of membership of the EEC for which, it is accepted, the country needs time to adapt.

In order to meet the demands of this move into Europe, the Spanish Government is clearly trying to expose the motor industry gradually to more competitive pressures. Under the old rules for the industry, manufacturers operated behind large tariff barriers which virtually doubled the price of any imported car, thus giving the domestic producers a relatively secure base on which to build up a business.

New competitors to the two domestic manufacturers SEAT and Baffelres, which were both founded in 1953, were introduced selectively as the market grew. This meant that, following the general relaxation of the limitations on foreign investment both Citroën and Renault established plants in Spain. These were later followed by British Leyland, which took over a small company called Authl, but was forced to withdraw again in 1975, and then Ford, which opened its Almusafes factory, near Valencia, in October, 1976.

As a result of all this development Spain has imported a great deal of foreign expertise. Even the two original domestic manufacturers have now come under the sway of overseas interests. SEAT, formed by a consortium of local banks, has always had a Fiat equity stake which has now grown to 36 per cent; and the Spanish company is heavily influenced by Fiat's design and engineering ideas. Barreiros, founded on the out-

skirts of Madrid by a celebrated Spanish entrepreneur and diesel engine expert, has gradually passed under the control of Chrysler.

So far, however, despite the presence of these international companies, the Spanish industry has not pushed towards the kind of organisational efficiencies that exist in the rest of Europe. The industry is still characterised by short production runs and relatively labour-intensive methods. Whereas most manufacturers in Europe, for example, make between 100,000 and 300,000 of their most popular cars a year, Chrysler is only producing 60,000 vehicles split between four models; and SEAT has six cars going down its line in a factory with a capacity of only 360,000 vehicles.

Technique

Ford has brought an entirely new element to the scene. Its Almusafes factory has a capacity of more than 350,000 vehicles and engine lines capable of making well over 400,000 vehicles a year. In other words it is applying precisely the same kind of scale techniques that it uses in the rest of Europe. Its labour force will be similarly tightly controlled—the facility is to employ about 9,000 workers against 30,000 at SEAT, Barcelona, under the sway of overseas interests. SEAT, formed by a consortium of local banks, has always had a Fiat equity stake which has now grown to 36 per cent; and the Spanish company is heavily influenced by Fiat's design and engineering ideas. Barreiros, founded on the out-

skirts of Madrid by a celebrated Spanish entrepreneur and diesel engine expert, has gradually passed under the control of Chrysler.

NEW REGISTRATIONS

| SPAIN | CARS | CVs |
|-------|---------|---------|
| 1966 | 250,673 | 87,553 |
| 1967 | 290,827 | 93,143 |
| 1968 | 309,880 | 82,297 |
| 1969 | 377,767 | 79,741 |
| 1970 | 399,171 | 77,995 |
| 1971 | 432,669 | 74,860 |
| 1972 | 504,453 | 87,498 |
| 1973 | 555,170 | 101,418 |
| 1974 | 575,722 | 100,813 |
| 1975 | 572,188 | 94,072 |

Source: Ministerio de la Gobernación

It is able to benefit from a more efficient use of resources, concentrating investment of certain key vehicle components on one factory.

The initial impact of Ford's drive into Spain, however, has been deliberately limited by the Spanish Government. An agreement with the company commits it to exporting two-thirds of production, while selling in Spain no more than 10 per cent of the previous year's total registrations. This means that Spain should be able to look forward to a steady increase in exports—which will strengthen its exports preparatory to the expected imports surge from the Common Market—while protecting the existing car assemblers in the country from the full blast of Ford's competition.

At the same time Ford's agreement has brought with it a relaxation of Spain's stringent local content regulations, which, by demanding that 90 per cent of Spanish-produced cars should be made from Spanish components, was designed to protect and foster the local parts industry. Under certain conditions—usually in return for big export commitments—other

companies have now been allowed to follow the example of Ford and bring in components worth up to 50 per cent of the final value of the car. Renault, Citroën, Chrysler and Fiat are all expected to seize the opportunity this gives them to integrate their Spanish plants with their own home bases. Fiat, for example, is shipping parts to SEAT for a Spanish version of the 128 3P, and in return SEAT is building up its exports through Fiat's European network.

One of the more intriguing features of the Spanish Government's policy towards the motor industry in the past is the way in which it has managed to control its steady development while maintaining reasonably profitable companies. But this comfortable development has been put in jeopardy by the oil crisis, which caused a slump in the car market. With a fresh and aggressive manufacturer—Ford—starting up locally as well, the industry looks set for a competitive and difficult few years.

One factor which exacerbated this situation last year was the tight control the Spanish Government maintained over car prices despite vociferous complaints from the industry. This situation has been eased slightly by a recent price increase, but the advantages achieved from that will probably soon be wiped out by wage increases now filtering through of well over 20 per cent.

The only encouraging sign is that registrations have now begun to climb slightly again. It is probable that the full record for 1976 will show a slight improvement on the 572,000 vehicles sold in the previous year, and there are hopes that new models now coming through the pipeline will help to stimulate the market.

In the longer term, once Spain has emerged from its current balance of payments problems, the car manufacturers are pinning their hopes on the tantalising prospect that Spain's car ownership rate is still half that of the rest of Europe—seven people to a vehicle against 3.5 in the rest of the EEC. That gives the producers a solid target to pursue.

Terry Dodsworth
Motor Industry Correspondent

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Crisis in chemicals

AMONG THOSE peculiarities which Spaniards readily embrace as national characteristics—though never, of course, personal ones—are a cheerful disregard for discomforting truths, and an almost fanatical faith in the infallibility of their own opinions. When the evidence can no longer be ignored, the Spaniard will sooner abandon a long-cherished notion than qualify it, having no taste for the middle ground or the conditional tense.

Thus in the Spanish chemicals sector, current opinion runs from euphoric confidence to hand-wringing and despair, with almost nothing in between.

Achievements

Against a backdrop of real achievement, with new investment continuing to pour into the industry, surviving optimists can state a fair case, to which the concept of "round growth" is the key. They point out that the modern Spanish chemicals industry, which started from scratch in the mid-1960s, has consistently outstripped GNP growth ever since. Output has sextupled in a decade and coverage of domestic chemical requirements has reached 40 per cent, against 23 per cent in 1965. Chemical consumption of P100bn. in 1965 now approaches P1,000bn., yet per capita chemicals use remains well below European levels. New plant being commissioned this year should narrow the chemicals trade gap, which amounted to P65bn. in the first 11 months of 1976. New installations worth P20bn. were brought on stream in 1975, and 30 more new plants and expansions representing some P35bn. were started up last year. A further P250bn. will be invested in chemicals by 1985 if all projects currently under construction or under study are brought to term.

If the present rate of investment can be maintained—as indeed it has been during the past two difficult years of recession—Spain should have a surplus in chemical production by 1985, the year usually given for full Spanish membership in the Common Market.

The faithful have recently added a new argument to their optimistic litany, pointing out that no major crises have developed as a consequence of General Franco's death, as if the only threat to continued chemical growth and health was civil war. Finally, mention is made of the traditional made of the sustained and apparently enthusiastic participation of the multinationals in the sector. Spaniards have great respect for the wisdom of foreigners, even though they pity and distrust them.

The growing number of doom-sayers within the industry—most of them recent defectors from the optimists' camp—are ready to grant that the track record to date is impressive, and that under normal circumstances, prospects for further growth would be bright on the strength of the facts given above. But these facts shrink in importance within the larger context of political and economic uncertainty at home and disturbing trends in the world chemical industry and market.

Spanish chemical makers, accustomed to healthy profits and an industry-wide annual growth rate of 18 per cent, have at last come to terms with the sobering evidence of two solid years of recession, inflation, steeply rising feedstock, energy and labour costs and waning demand. They suffer from a creeping realisation that the boom years owed less to their own industrial and entrepreneurial merits than to unprecedented demand for goods from a nation growing suddenly—if briefly—rich from tourism.

The chemical industry that was slapped together during the halcyon decade which OPEC ended, was built from the rafters down. The state holding companies, ERT, CEPESA and a few others built some early basic and intermediate chemical plants, but most business was done nearer the consumer end. The Government was always prepared to impose tariff barriers to protect new Spanish production facilities, but in no systematic way discouraged the profligacy of the importers who, to a far greater degree than the manufacturers, met the growing demand for chemicals.

By the time the industry got around to giving serious attention to its foundations, the boom was over. Oil prices were up, demand down, the balance of payments diving into the red.

the Franco regime senile and moribund. Strikes and wage inflation reappeared in Spain after so absence of 40 years. An increasingly pollution-conscious populace began to make itself heard and effectively checked the building of several necessary but noisome installations.

The pauperised public sector now has neither the political authority nor the economic wherewithal to restore the chemical industry's confidence in itself and its future. The generous use of protectionism, subsidies and other such stimulants and safety devices which passed as economic policy during the prosperous years is regretted by the industry in its current confessional mood. Industrialists now admit that there are no workable long-term substitutes for productivity and rational investment policy.

Apart from Enpetrol's 373,000 ton/year ethylene plant at Tarragona, few new productive units are scheduled to start up in 1977. The next wave isn't due for service until the end of this decade, and the pessimists are naturally banking on cancellations.

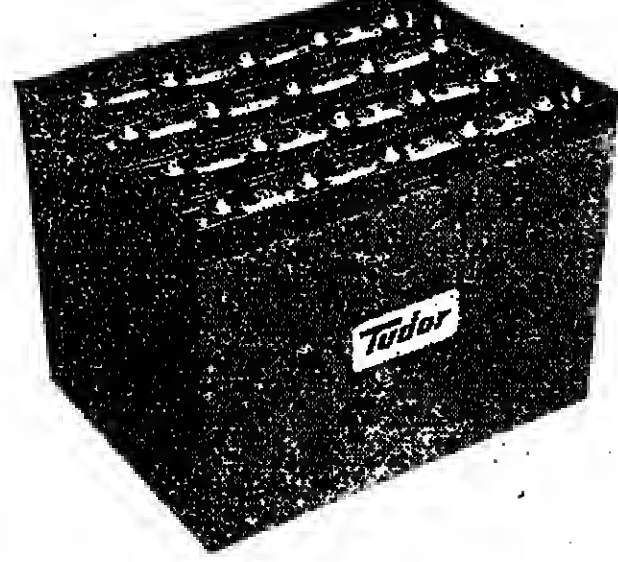
A dispassionate observer of the Spanish chemical scene—if any exist—would probably hedge his bets. It is a fact that once it got started, Spain's chemical industry grew faster

than any in Europe, and its mistakes were made and deflected uncorrected. It was indeed unfortunate that a world economic crisis and a domestic political one should appear as plans were being laid to the sector on a sounder footing through investment in high cost, low-profit base chemical units. Spain's race to modernise and consumption levels now slow to a crawl, but if the ground is to be covered at all, such investments are necessary. At today's prices, Spain's industrialists must draw even peseta's worth of added value from raw materials, whether domestic (potash, salt, sulphur) or imports (everything else). They must cut the chemical trade gap at all costs.

It has taken two years of disappearing profits, declining production and mounting political uncertainties to bring on today's crisis of confidence in the Spanish chemical industry. This year, with another oil price hike, no economic recovery in sight and elections just around the corner, may be a critical one. Yet whether it survives with its ambitions and project intact may well depend less on internal factors than on whether it keeps its nerve.

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SPANISH INDUSTRY VII

Bleak outlook for steel industry

IN Spain's steel industry a lot of money in lost production and man-hours. Any hint of lay-offs now would be likely to touch off a disastrous wave of labour conflict. Nevertheless the export market does not look promising. The Common Market, which had a 6.8 per cent. growth in steel production last year, is now studying measures to reduce Spanish steel imports. Competition from Japan is stiff and the world economy in general is not exactly enjoying a boom period.

The earliest forecast for Spanish entry in the EEC is 1980, and even this is considered highly optimistic. Tariffs are likely to remain a barrier to Spanish exports well into the next decade and Spanish steel industry sources are saying that they want no part of a poor "aid" agreement with the EEC—full membership or not.

The EEC, which absorbs most of AHV's exports and nearly a quarter of Ensidesa's, is in a position to put the Spanish steel industry back to the wall.

A case in point is Britain's anti-dumping action taken against imports of Spanish stainless steel. In November Britain imposed a 10 per cent. surcharge on Spanish stainless steel imports alleging that it was being offered below U.K. prices. Since Britain is not obliged to take its anti-dumping

claims to the Common Market until next July, the British Independent Steel Producers Association pressured Parliament to impose the surcharge, which affects some 1,500 tonnes per annum of stainless steel imports.

Spanish sources say that the charges are true: they were exporting at approximately 5 per cent. below British prices. But they also maintain that Japan is shipping stainless steel to Britain at 30 per cent. below U.K. prices. No anti-dumping measures have been applied against Japan. In addition more than one angry Spanish steel manufacturer points out that the British Steel Corporation now has an order to deliver 3,000 tons of wire rod to a Spanish customer at £122 per ton Bilbao. The British list price for wire rod is £165 per ton.

Dumping

The Department of Commerce is scheduled to hand down a ruling on this anti-dumping case in February. If Britain's charge is upheld, the surcharge accumulated up to that date is forfeited. If Spain wins the case, the money is refunded. In either instance, it is revealing of the defenceless position of Spain's steel industry.

Both Ensidesa and AHV (although the latter is privately-

owned) are confident that the Government will bail them out if the steel industry begins to founder. AHV, in fact, is cautiously optimistic about the chances for a slight flurry of recovery toward the latter half of this year, although this is by no means expected to initiate a trend. AHV is thankful that the Sagunto project was approved in 1972, before the oil crisis had a chance to provoke second thoughts.

Sagunto will also enable Spain to help offset its steel import bill, which last year amounted to \$705m. (\$3.2m. tons).

Heavy imports are in large measure the result of a highly unpopular government order in 1974 to reduce steel exports by 1m. tonnes to fill domestic demand. Exports have still not recovered the pre-1974 level.

Spain is nevertheless now making an effort to bring its steel prices up to EEC levels. The 1975 trade deficit for the 10-month January-October period was 95,000 tons (\$244,000). For the same period last year imports outweighed exports by 11,000 tons (\$109,000). In proportion, the reduced deficit in tonnage outstrips the negative dollar balance, which indicates that Spanish steel prices are on the rise.

Jules Stewart

INI role under attack

THE Instituto Nacional de Industria, better known simply as INI, is the giant of Spanish industry, or, as some of its detractors would call it, the octopus. As the holding company for the State's participation in industry, it has grown massively since its foundation in 1941 when its role was to assist in the country's reconstruction after the civil war. It basic resources of a shattered nation and lay the framework for some industrial recovery.

Especially it was supposed to aid those areas which were unattractive to private capital. This to an extent it did and then, according to INI, retired gracefully into the background during the 1960s when the boom had been solidly established and foreign capital was flowing in.

Occasionally it was forced to intervene to help the rare lame duck—part of the coal mining industry and a steel producing company, for example—or to assist in the restructuring of certain sectors such as foreign investment, tourism and the promotion of Spanish handicraft skills. Then in 1970, INI says, it developed a new character that was dynamically oriented towards solving industry's major difficulties and towards such problems as regional imbalance.

During the present economic and industrial crisis the Government sees a further key role for INI. That is as the stabilising factor which can help to check cyclical movements.

During 1975, and to an extent last year, INI management has stressed that, while the private sector was getting cold feet about investment, INI maintained its programmes "thereby contributing to maintenance of economic activity."

Such public back-slapping does not always go down well in the private sector to which INI sees itself as the bridge, moulding together the two forms of enterprise.

One of the major reasons for hostility towards INI is that it has expanded to such an extent that it now actively competes in some sectors with private enterprise and on terms that are described as blatantly unfair. First, there is the question of finance. Much of INI's development has been achieved through plentiful supplies of cheap credit provided through what is called the "privileged circuits," whereby the savings banks, for example, and other credit entities are obliged to pick up INI paper at very cheap rates. In these matters INI always has preference, while the privately owned company may be pleading with its bank for funds. Second, some private companies have complained that because INI is the State it naturally gets preference in permission from the Ministry of Industry for a number of requirements.

The rules applied to companies that have to make a profit to survive might not always apply to a company controlled by INI. Quite apart from this argument there is a body of opinion that, should it be represented in the Government formed after the general elec-

tion, will strongly advocate a splitting up of INI's functions and finding more public ways of vetting the performance of individual companies. While there are some sectors where State subsidies are obviously socially necessary, such as the maintenance of the coal-mining industry, there are others which would bear much closer examination.

In this context INI could obviously play a vital role in what is being increasingly described as the urgent need to restructure Spanish industry because of the collapse of the economic model that brought such rapid growth from 1959 to 1973. What some of INI's present opponents seem to be saying is not that they are opposed to the degree of State intervention but to the direction and control of it, essentially a political matter depending first on the Minister of Industry and ultimately on the Government.

Changes

Indeed this is recognised in parts of INI's present management, where it is admitted that policy objectives have in essence remained little changed since the death of General Franco, and as a result large sums of money will be pointlessly wasted propping up companies for reasons of political expediency when they should be phased out or substantially slumped down.

During the four-year period 1976-79 INI has a planned investment programme worth some £4.4bn. to be spread through its companies, although with heavy concentrations in some sectors.

More than a quarter of the total is scheduled to go to the electric power sector. This will include the construction of conventionally-fired power stations and the strong development of nuclear power, which will take up an increasing proportion of funds in the years ahead. In the manufacturing industry SEAT, in some sectors with private enterprise and on terms that are described as blatantly unfair. First, there is the question of finance. Much of INI's development has been achieved through plentiful supplies of cheap credit provided through what is called the "privileged circuits," whereby the savings banks, for example, and other credit entities are obliged to pick up INI paper at very cheap rates. In these matters INI always has preference, while the privately owned company may be pleading with its bank for funds. Second, some private companies have complained that because INI is the State it naturally gets preference in permission from the Ministry of Industry for a number of requirements.

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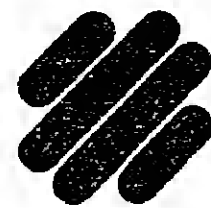
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R.M.



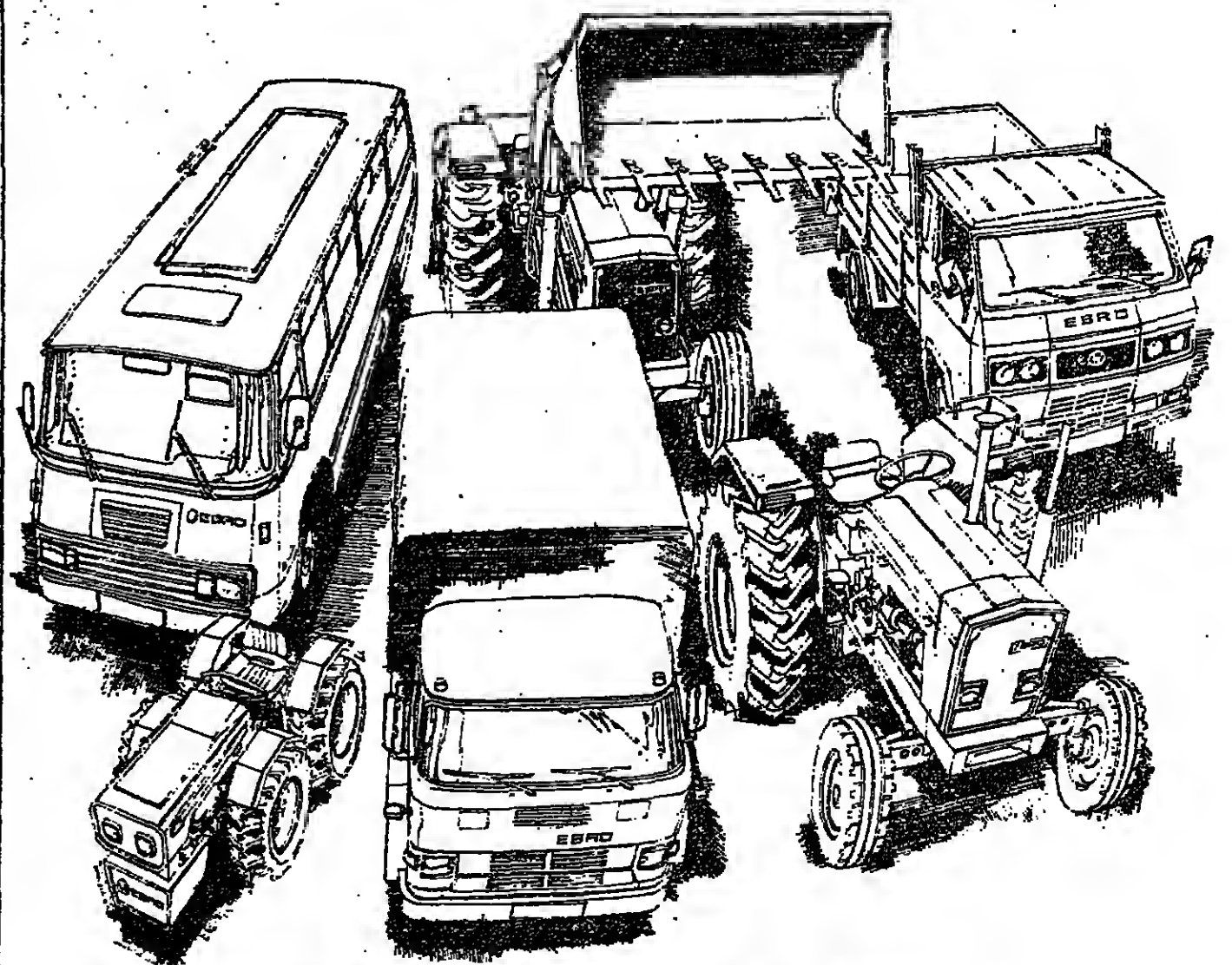
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During 1976 we have managed or participated in foreign currency financings for the following borrowers:

Aiscondel, S.A.
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Editorial Noguer, S.A.—Rizzoli International
ENSIDESA—Empresa Nacional Siderurgica, S.A.
ENASA—Empresa Nacional de Autocamiones, S.A.
ETASA—Exportadores de Tomate de Alicante, S.A.
Fábrica de San Carlos, S.A.
Flaminaire, S.A.
FECSA—Fuerzas Eléctricas de Cataluña, S.A.
Fundición Bolueta, S.A.
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Barcelona, January 1977



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Cranes of all types for maximum power
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Public Works machinery
Heavy equipment
Structural steel

WALL STREET + OVERSEAS MARKETS

Awaiting Carter's planning: up 1.17 Sterling firm

BY OUR WALL STREET CORRESPONDENT

SMALL GAINS were in the majority on Wall Street today, when investors appeared to be waiting for a clearer picture of U.S. inflation prospects, interest rates and the economy in general.

The Dow Jones Industrial Average gained another 1.17 to 963.60 but the NYSE All Common Index shed 1 cent to 336.14, while rises led falls by 284-10-674. Trading volume further decreased to 1.64m shares to 22.58m.

Light early buying followed the report that the Carter Administration's planning of economic stimulation is likely to include an

Mild buying also followed the report of a sharp 8.5 per cent gain in New Factory Orders for December. The report is subject to revision.

Alcoa Electronics were lifted 56 to 37.7. Applied Digital revised its offer for Alcoa, while British Rael Electronics bid \$26 for each Common share.

But Monsanto dropped 53 to 87.94 on lower fourth quarter profit.

Atlantic Richfield firmed \$1 to \$3.5 on improved fourth quarter earnings.

THE AMERICAN SE Market-Value Index moved up 0.32 to 12.94, while advancing issues outnumbered declines by 353-to-304.

MONDAY'S ACTIVE STOCKS

| Stock | Change |
|-------------------|--------|
| Alcoa | 56 |
| Alcoa Electronics | 56 |
| Alcoa Common | 56 |
| Alcoa Preferred | 56 |
| Alcoa Industrial | 56 |
| Alcoa Chemical | 56 |
| Alcoa Paper | 56 |
| Alcoa Steel | 56 |
| Alcoa Aluminum | 56 |
| Alcoa Copper | 56 |
| Alcoa Zinc | 56 |
| Alcoa Lead | 56 |
| Alcoa Tin | 56 |
| Alcoa Nickel | 56 |
| Alcoa Manganese | 56 |
| Alcoa Iron | 56 |
| Alcoa Coal | 56 |
| Alcoa Oil | 56 |
| Alcoa Gas | 56 |
| Alcoa Electric | 56 |
| Alcoa Chemical | 56 |
| Alcoa Paper | 56 |
| Alcoa Steel | 56 |
| Alcoa Aluminum | 56 |
| Alcoa Copper | 56 |
| Alcoa Zinc | 56 |
| Alcoa Lead | 56 |
| Alcoa Tin | 56 |
| Alcoa Nickel | 56 |
| Alcoa Manganese | 56 |
| Alcoa Iron | 56 |
| Alcoa Coal | 56 |
| Alcoa Oil | 56 |
| Alcoa Gas | 56 |
| Alcoa Electric | 56 |

OTHER MARKETS

Canada again mixed

Canadian Stock Markets remained mixed in moderate trading yesterday, although shares among Oils and Metals pushed the Toronto Composite Index up two points.

Gold, Utilities, Banks and Papers were all lower.

Alcan Aluminums climbed 58 to 34.4 on higher fourth-quarter earnings. Massey-Ferguson also rose after a surge in the previous week.

The decline in the economic barometer relieves concern that the Federal Reserve might tighten credit policy to hold down the money supply.

Indices

NEW YORK - DOW JONES

| | Jan. 24 | Jan. 23 | Jan. 22 | Jan. 19 | Jan. 16 |
|------------------------|---------|---------|---------|---------|---------|
| Industrial .. | 965.66 | 967.42 | 958.02 | 959.67 | 962.11 |
| HomeBonds | 91.78 | 91.92 | 91.95 | 91.91 | 92.00 |
| Transport .. | 231.64 | 230.61 | 231.64 | 233.30 | 231.16 |
| Utilities ... | 110.76 | 109.57 | 109.56 | 109.77 | 109.59 |
| Trading vol 000's : | 22,890 | 23,920 | 26,635 | 27,120 | 24,365 |

* Basis of index changed from July 1, 1919 to Jan. 1, 1924.

Pricing plea by sugar cane group

KINGSTON, Jan. 24—The Caribbean Agricultural Cane Growers' Association (CACGA) has asked the EEC to consider the cane growers' plea for a 5% increase in the price of sugar cane. The CACGA, which represents cane growers in the Caribbean, has asked the EEC to consider the cane growers' plea for a 5% increase in the price of sugar cane. The CACGA, which represents cane growers in the Caribbean, has asked the EEC to consider the cane growers' plea for a 5% increase in the price of sugar cane.

U.K. pig subsidy payment illegal, EEC claims

BRUSSELS, Jan. 24—The European Commission has claimed that the United Kingdom's pig subsidy payment is illegal. The Commission has claimed that the United Kingdom's pig subsidy payment is illegal. The Commission has claimed that the United Kingdom's pig subsidy payment is illegal.

Sharp fall in coffee market

By Richard Mooney
COFFEE FUTURES prices fell sharply on the London International Coffee Exchange yesterday in sympathy with a weak opening in New York. By the close the March position was \$58.50 down on the day at \$58.21 a tonne. But dealers said there was no new fundamental factor to account for the fall.

Warning of further food price rises

BY ROBIN REEVES IN BRUSSELS
"IN THE ABSENCE of effective action by member governments, it is to be feared that the rise in consumer prices for the Community overall will hardly be less than the coming year (1977) than in 1976. This is the considered view of the European Commission in its annual report on the agricultural situation in the EEC.

New rubber pact meeting arranged

GENEVA, Jan. 24—The International Rubber Trade Association (IRTA) has announced that it will hold a meeting in Geneva on February 1st to discuss the proposed new rubber pact. The IRTA, which represents rubber producers and consumers, has announced that it will hold a meeting in Geneva on February 1st to discuss the proposed new rubber pact.

Fight for the marketing boards

BY JOHN CHERRINGTON, AGRICULTURE CORRESPONDENT
A DEMAND that the British Marketing Boards for milk and potatoes should be retained with all their powers will be one of the main themes at today's opening of the National Farmers' Union (NFU) annual meeting in London.

Base metal values ahead

By Our Commodities Staff
BASE METALS continued their advance on the London Metal Exchange yesterday. Tin hit record high levels following a sharp rise in the Malaysian price over the week and brisk buying demand and a 135 tonnes fall to 4,335 tonnes in 1976.

Migration

Beef and Veal
The decline in EEC beef and veal production will probably sharpen to about 6 per cent in 1977 against last year's estimated drop of 2 to 3 per cent from the 1976 level. But on the basis of present estimates, production should recover in 1978.

Meat

Cereals
Cereals harvests will not enable the EEC to export barley in 1976-77 except in the form of malt. Common wheat available for export will be limited to traditional outlets, though a surplus of low quality durum wheat may be difficult to dispose of.

Labour

An interesting observation of the report is that the economic recession and the resulting unemployment have affected the rate of migration from agriculture to other sectors. Although the rate of decline in the labour force has slowed down since the 1950s, the number of people in the under-35 age group has either slackened or actually reversed.

COMMODITY MARKET REPORTS AND PRICES

| BASE METALS | | | | | | | | | |
|-------------|--------|--------|--------|----------|-----------|------|------|----------|----|
| PER-VERY | STEADY | ON THE | LONDON | EXCHANGE | YESTERDAY | LAST | WEEK | CHANGING | IN |
| PER-VERY | STEADY | ON THE | LONDON | EXCHANGE | YESTERDAY | LAST | WEEK | CHANGING | IN |

| LONDON METAL EXCHANGE | | | | | | | | | |
|-----------------------|---------|---------|------------|---------|---------|------------|---------|---------|------------|
| Investment | Futures | Trading | Investment | Futures | Trading | Investment | Futures | Trading | Investment |
| Investment | Futures | Trading | Investment | Futures | Trading | Investment | Futures | Trading | Investment |

| LONDON METAL EXCHANGE | | | | | | | | | |
|-----------------------|---------|---------|------------|---------|---------|------------|---------|---------|------------|
| Investment | Futures | Trading | Investment | Futures | Trading | Investment | Futures | Trading | Investment |
| Investment | Futures | Trading | Investment | Futures | Trading | Investment | Futures | Trading | Investment |

| LONDON METAL EXCHANGE | | | | | | | | | |
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| Investment | Futures | Trading | Investment | Futures | Trading | Investment | Futures | Trading | Investment |

| LONDON METAL EXCHANGE | | | | | | | | | |
|-----------------------|---------|---------|------------|---------|---------|------------|---------|---------|------------|
| Investment | Futures | Trading | Investment | Futures | Trading | Investment | Futures | Trading | Investment |
| Investment | Futures | Trading | Investment | Futures | Trading | Investment | Futures | Trading | Investment |

STOCK EXCHANGE REPORT

Profit-taking leaves widespread falls in equities

Index down 6.9 at 377.8—Short-dated Gilts bought again

Account Dealing Dates

Optico

First Declared Last Account

Dealings Dates Day

Jan. 4 Jan. 13 Jan. 14 Jan. 23

Jan. 17 Jan. 27 Jan. 28 Feb. 8

Jan. 31 Feb. 10 Feb. 11 Feb. 22

* New time "dealings may take place from 9.30 a.m. two business days earlier."

Press comment on the big

build-up of speculative positions

and on the relatively low level

of institutional liquidity triggered

off an opening mark-down of

leading equities and to subse-

quent profit-taking. British funds

also trended lower when that

market opened at 10 a.m. and

with this pro removed, the fall

in equities gathered pace. Selling

was a relatively modest scale

but prices were sensitive to even

small offerings after the un-

surpassed recent months. Follow-

ing Friday's loss of 2.2, the FT

Industrial Ordinary share index

closed 6.9 down at 377.8, although

prices of the constituent shares

were no more than narrowly

mixed for most of the day as

seen in the fact that the index

was seven points down at 11 a.m.

The FT-Actuaries All-Share index

fell 1.7 per cent. to 162.09.

Closing losses were minor in

view of recent gains, and the

Funds gave an even more credit-

able performance. Early falls to

1 in long-dated gilts were

reduced to 1, while the medium

and long-term gilts were

picked up to end unchanged and

on hopes of a further modest cut

in Minimum Lending Rate next

Friday, short-dated gilts were

renewed demand which trans-

formed earlier losses to 1 into

small net gains. The Government

Securities index gave up 0.12 to

64.42.

Falls outnumbered rises in FT-

quoted Industrials, by 2 to 1, for

the first time in nine business

days. The level of trade was

relatively good with mark-

ings against 7.32 last Friday

and 6.05 a week-ago. Business

took in a good deal of speculative

activity in special situations, and

Press comment also produced iso-

lated firm features.

An early shake out in gilt-edged

produced only a modest amount

of selling from nervous holders

and once this was absorbed the

recent firm trend began to show

through again.

Short-dated

maturities were in the van and

with turnover continuing to match

last week's high standard, relied

to close up to 1 higher on the

day, as in the case of Treasury

9 per cent. 1980, at 92.1, which is

due to be quoted clean to-day.

Helping both business and com-

modity was the belief that Min-

imum Lending Rate could fall

to 12 per cent. this Friday.

Mediums and longs experienced

the quietest day for some con-

siderable time, but the former

recouped initial falls of 1 to close

unchanged, while the latter were

often 1 easier after a Con-

firmation of the S15bn. Euroloan,

rumoured over the week-end, at

favourable terms was taken as

another sign of the U.K.'s im-

proved financial and economic

status.

The Rhodesian rejection of the

new constitutional plan and Mr.

Richard's remark that he saw no

purpose in reconvening the

Geneva peace talks unsettled

Southern Rhodesian bonds, which

fell about 3 points: the 2 1/2 per

cent, 1983-70, issue lost that much

to 54.1.

Further small arbitrage offer-

ings in a market still devoid of

any worthwhile demand lowered

the investment currency premium

11 points more to 106.1 per cent.

The Delia LET Investments bid

for Amfacas issues generated

interest and the Ordinary moved

up 3 points more to 194.1, against

the offer price of 191.1, and the

Preference 1 to 193.1, compared

with the bid of 194.1. A 7.34

conversion factor was 0.734

(0.732).

Banks weak

Awaiting the expected reduc-

tions in their base lending rates

after last Friday's sharp fall in

Minimum Lending Rate, the big

four banks ran into a fair amount

of early selling and generally

closed at the day's lowest.

Barclays, 27p, Lloyds, 27p, and

National Westminster, 27p, all

fell 1, while Midland were 8 down

at 25p. Bank of Scotland lost

1 1/2 to 21p. Commercial Bank of

Australia fell 1 1/2 to 21p ahead of

Thursday's interim. Alexander's

Oscomat shed 3 to 23p follow-

ing the results. Merchant Bank

BUILDING MATERIALS

1976/77 High

1976/77 Low

1976/77 High

1976/77 Low

1976/77 High

1976/77 Low

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1976/77 Low

355p in Chemicals; the price in

yesterday's issue was incorrect.

Light profit-taking left the

shares only 3 down on the day

at 353p. William Ransom, how-

ever, rose 8 to 105p on buying in

a thin market ahead of interim

figures due early next month.

Barton Group featured a drab

Shares sector, closing a penny

better at 55p and the A 7p harder

at 45p, after 45p following

Press comment on the annual

record. A Press-inspired

improvement of a penny to 29p

for Marks and Spencer shed 3 to

29p. D. and S. R. H. H. H. H. H.

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BRITISH FUNDS

Shares (Lives up to Five Years)

| "Shorts" (Lives up to Five Years) | | | | | | | | | |
|-----------------------------------|------|------|------|------|------|------|------|------|------|
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10. *Chlorophyll *a** and *Chlorophyll *b** were determined by the method of Arar and Collins (1971).

Spanish Army chiefs launch attack on Government

BY ROGER MATTHEWS

SOME of Spain's military leaders began voicing their anger to-night at the Government's handling of law and order after the kidnapping of the president of the Supreme Court of Military Justice, Lt-Gen. Emilio Villacampa, 64.

At least two captains-general, who head the country's military regions, sent telegrams to King Juan Carlos demanding stern measures.

A 30-year-old girl student died this afternoon in violent clashes between riot police and demonstrators in Madrid. She was the second student to die violently in 24 hours, and her death provoked further serious clashes to-night.

Gunmen attacked offices in Madrid used by supporters of the Communist-led Workers' Commissions and at least one Gen. Villacampa noted for his loyalty to the late Gen. Franco, is a former head of the Madrid Military Region and Army Chief of Staff. He was seized by a group of gunmen as he left his home near the centre of the city.

The police, who formed road blocks round the capital, believe there may be a link between the General's abduction and the person was killed.

It appears that many Army officers are angry at the Government's failure to deal adequately with the kidnappers of Senor Orio, which they believe is a direct cause of today's abduction.

In what was already a definite escalation of political violence is clearly meant to provoke a military reaction. Lt-Gen. Iniesta Cano, a noted right-winger, said this morning that the issue was in the hands of the Government.

"If it was in my hands, it would be a very different matter," he added.

A series of top-level meetings in the Prime Minister's office this afternoon involving Lt-Gen. Gutierrez Mellado, the liberal Deputy Premier, and Sen. Martin Villaz, interior Minister, was aimed at deciding if special measures were needed.

With only a few months to go before the promised General Election, Senor Suarez is anxious not to restore more arbitrary powers to the police because of the reaction and resentment this would cause.

An eye-witness to the kidnapping is said to have recognised one of the assailants as a member of the extremist faction Grapo, which claims to hold Senor Orio and has demanded release of all political prisoners.

In a communiqué last week Grapo told the Government that it had revealed only a fraction of its capability and was ready to commit more spectacular actions.

As in the case of Senor Orio, Gen. Villacampa was seized efficiently and with little violence. Two cars, one carrying men in Army uniform, pulled up outside the General's home as he walked towards his official Mercedes.

The kidnappers surrounded the General, forced him into his own vehicle, which had a chauffeur at the wheel, and the three cars drove off at high speed. The chauffeur was abandoned a few blocks away, and the Mercedes stopped a little later.

The dead girl was said by her friends to have been hit by a police smoke bomb, fired at close range, which fractured her skull.

The central shopping area was shrouded in smoke and tear gas as police made repeated baton charges to disperse the students, some of whom resorted to throwing stones and tried to build barricades.

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MADRID, Jan. 24.

Shipyard Board's full-time men quit

By John Wyles, Shipping Correspondent

THE Government's trouble-shooting shipbuilding policy suffered further damage last night when the three remaining full-time members of the organising committee of British Shipbuilders confirmed that they would not stay on to run the industry after nationalisation.

Their departures have been expected since the chief executive-designate, Mr. J. Graham Day, announced his resignation on December 5.

Although Mr. Eric Varley, the industry Secretary, tried personally to persuade them to stay, Mr. Tooy Peers, Mr. Peter Mills and Mr. Patrick Griffith, directors-designate for industrial relations, corporate planning and finance, have decided to leave within six months.

They will continue in the meantime as organising committee members, and this looks increasingly likely to involve them in developing the Government's interim plan for shipbuilding, which will be adopted if nationalisation seems likely to be delayed beyond the summer.

Having completed its Committee stages for the second time, the nationalisation Bill is firmly parked in the Lords, whose examiners are still taking submissions on its possible hybridity.

Ministers will be made to make judgments about the Bill's possible timetable until the summer, when the Government will almost certainly regroup existing State-owned yards into a holding company capable of absorbing private companies.

Mr. Day's resignation was the most important factor influencing yesterday's announcements. Although in Mr. Mills' case family considerations were paramount, he has been asked to leave to educate his two young children in his native Canada.

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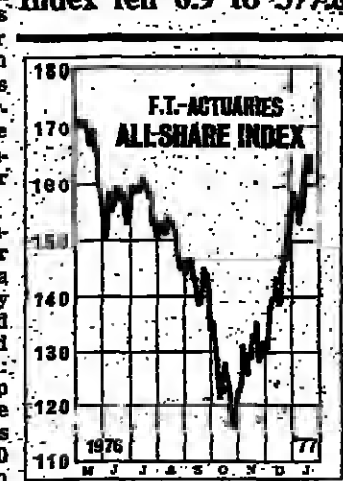
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THE LEX COLUMN

The odd case of a bashful bidder

Index fell 6.9 to 377.8



Something is wrong somewhere, if a bidder describes a contested take-over attempt as "our only way out of a corner into which we have been forced," and Arthur Guinness (which used this phrase yesterday) would be the first to agree that there are some very unusual features in its offer for White Child and Boney.

The background is that Guinness picked up a holding of over two-fifths of WCB during a botched takeover and ultimately unsuccessful "takeover" bid nearly three years ago. It did not seek Board representation; instead it continued to pick up shares under rule 34 of the Takeover Code, which allows anyone who holds between 30 and 50 per cent of a company to increase the holding by 2 per cent a year.

So WCB faced the probability that despite its efforts control would pass to Guinness within a period of three or four years. It had nothing to lose by bringing matters to a head at a time when its trading background was healthy—and the means to do this was provided by its friendly neighbourhood branch of the National Enterprise Board.

Although WCB could certainly have secured finance from the private sector, the NEB agreed last month to help finance an ambitious expansion programme by putting up £1.1m. of new equity at around the market price in return for 24 per cent of the enlarged capital. Guinness could not have opposed these terms—about which it was not consulted—without being accused of acting against majority shareholders' interests, but it was not prepared to see its holding diluted to 35 per cent at next month's EGM. Hence the bid.

But it is hard to identify anyone who really stands to gain from a bid made for such negative reasons. There are very few independent shareholders in WCB, since around two-fifths of the equity is owned by the Board's family and friends, who are fiercely independent. Guinness shareholders, if they had wanted to, could have made a direct investment in WCB at two-thirds of this price. And as for the wider public interest, Guinness's plastics operations is not spectacularly successful, while WCB is a vigorous and expanding small company.

The affair is not over yet, and it would not be at all surprising if Guinness were obliged to increase its terms. Meanwhile three general points are worth making. One is that the NEB, by interfering with normal market mechanisms, has allowed itself to be used as a means of diluting the effectiveness of a major shareholder. Another is that in the light of these circumstances, rule 34 of the Code looks an unsatisfactory compromise between giving a large shareholder a free hand and locking him in a permanent minority position.

Finally, WCB highlights the problems of a small but successful company which has almost no support from institutional shareholders. Guinness's initial 30 per cent holding came via a somewhat unsavoury route through a Slater Walker shell, in equity market, may have the "Dustin trust" and finally through Heenan Spinks' investment. Guinness will have had to sit out this actively considered placing its shareholding rather than making this bid, but decided that it could not do so at a satisfactory price given the existing lack of institutional involvement.

After the unexpectedly large drop in MLR last Friday the gilt-edged market paused for look forward to a period of breath yesterday. But evidently some months in which the h. there are, hopes that MLR could come down again this week, and the market's response to a certain amount of profit taking the discount houses and its must be regarded as encouraging. Recent boom conditions stood, there are no useful p. have, after all, attracted in a cents by which to try p. great deal of money which, in anticipate the future tactics, and it would not be at all surprising if Guinness were obliged to increase its terms.

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regarded as footloose, and therefore liable to make the market technically vulnerable if background conditions become at all difficult.

To start with the discount houses—traditionally nimble operators in the gilt-edged market, and recently accounting for about a quarter of all transactions in shorts—are heavily involved. From virtually nil in September their gilt holdings may well be now of the order of £400m. To take an example of their mobility, in the three months from January 1976 they unloaded £280m of stock.

Then there are the foreign investors who have jumped on to the bandwagon in an unprecedented way since the middle of December, when the change in the outlook for sterling suddenly made U.K. interest rates link like a bargain; around the turn of the year, for instance, U.S. Government 20-year bond rates were only some 7½ per cent in a bond market which was looking rather vulnerable.

Foreign buying of gilts has amounted to at least £500m, and some estimates range close to £1bn—virtually all in the past five weeks. This compares with an official figure of £27m net in the first nine months of 1976.

Nor is this all. Merchant banks and foreign banks in the City, which held under £200m of gilts on December 8, could easily have doubled that figure. The personal sector has been active. And some of the funds earmarked for equities by Foreign buying of gilts has been temporarily diverted into the gilt market, may have the "Dustin trust" and finally through Heenan Spinks' investment. Guinness will have had to sit out this actively considered placing its shareholding rather than making this bid, but decided that it could not do so at a satisfactory price given the existing lack of institutional involvement.

All in all, between £1bn and £2bn, of arguably hot money could be in the gilt-edged market. This would create severe problems if the Government was still under pressure to sell stock. Fortunately, with the borrowing requirement on the money supply under control, the market should be able to look forward to a period of breath yesterday. But evidently some months in which the h. there are, hopes that MLR could come down again this week, and the market's response to a certain amount of profit taking the discount houses and its must be regarded as encouraging. Recent boom conditions stood, there are no useful p. have, after all, attracted in a cents by which to try p. great deal of money which, in anticipate the future tactics, and it would not be at all surprising if Guinness were obliged to increase its terms.

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Professor Mackintosh to stay on as MP

By Richard Evans, Lobby Editor

MR. JOHN MACKINTOSH, Labour MP for Berwick and East Lothian, has been appointed Professor of Politics at Edinburgh University, but, to the intense relief of Government whips, he will not be resigning his highly marginal seat.

The appointment will initially be on a part-time basis to allow Mr. Mackintosh, a leading independently-minded moderate and a passionate pro-Marketeer, to continue as an MP.

Whether he stands again will depend on his constituents and on whether he feels able to support Labour's next election manifesto.

Mr. Mackintosh has become an increasingly outspoken critic of some aspects of Government policy in recent months. With Mr. Brian Walden, MP for Birmingham Ladywood, he was responsible for wrecking the Government's Dock Work Regulation Bill last session. They abstained in a key division.

Although his decision to accept the Edinburgh chair will be declined the post on a full-time basis will not be popular with the Government whips, he is in a very strong position. The Government can hardly consent to his giving up the seat he captured from the Tories with a 2,740 majority.

The Government's overall majority is one, taking into account the usual support for Labour of four independents. Loss of Berwick in a by-election would put the Government into a vulnerable minority position.

But he is broadly in sympathy with the three major items of legislation in the current session—devolution, direct elections to the European Parliament and the Bullock Report on industrial democracy. Mr. Mackintosh is, nevertheless, pursuing a campaign to strengthen the devolution legislation.

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Britain and Germany plan 'last' offset pact

BY REGINALD DALE, EUROPEAN EDITOR

BRITAIN and West Germany are to press ahead with negotiations for a new offset agreement to help compensate the U.K. for the foreign exchange costs of the Rhine Army.

At the end of yesterday's Anglo-German summit talks in London both Mr. James Callaghan and Herr Helmut Schmidt, West German Chancellor, expressed confidence that a new agreement would be reached despite continuing differences of view between the two Governments.

Mr. Callaghan went out of his way to show understanding of German reluctance to continue making cash payments to the U.K. The Germans fear that such payments perpetuate the notion that the Rhine Army is an occupying force.

Offset agreements were becoming increasingly unacceptable to the German people, Mr. Callaghan said. It would be wrong to think the arrangements could "continue in perpetuity in their present form."

In negotiations to renew the last agreement, which expired at the end of March last year, the Germans argued that they have already done a great deal to help the British balance of payments.

This, they say, they have done through their contributions to the IMF loan to the U.K., the Basle agreement on the sterling balance, and their sympathy towards the Government's refusal to devalue the Green pound.

They have resisted the idea of making further direct cash payments to Britain, although it has been suggested that they might be prepared to do so once more provided it was clearly understood to be the last.

The last agreement, signed in 1971, included provision for a cash payment of DM110m a year (£20m at 1975 exchange rates), equivalent to 5 per cent of the total foreign exchange cost of maintaining British forces in West Germany last year.

Mr. Callaghan and Herr Schmidt expressed support for a new international economic co-operation effort, which the Prime Minister said should concentrate on the world economy in 1978.

It would be unsatisfactory if there were a slowdown in the U.S., German and Japanese economies next year and the three countries should maintain momentum, if not actually increase it.

Britain's Community partners, not all of whom will attend the summit, would be consulted about it in advance. The Prime Minister would go to Washington in the relatively near future to continue the summit's preparation.

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